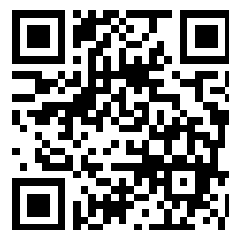


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**CONDOMINIUM AND COOPERATIVE CONVERSION:  
THE FEDERAL RESPONSE  
(Part 1—Overview Hearings)**

---

**HEARINGS  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON  
GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES  
NINETY-SEVENTH CONGRESS  
FIRST SESSION**

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**MARCH 30, 31; AND APRIL 1, 1981**

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Printed for the use of the Committee on Government Operations





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WASHINGTON : 1981**

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## CONTENTS

Hearings held on—	Page
March 30 .....	1
March 31 .....	185
April 1 .....	777
Statement of—	
Atlas, John D., vice president/legal counsel, New Jersey Tenants Organization .....	198
Barnes, Hon. Michael D., a Representative in Congress from the State of Maryland .....	85
Beal, Kathleen, Washington, D.C. ....	157
Beckman, Allan J., attorney, Beaver Hill Tenants Association, Jenkintown, Pa. ....	120
Bradford, Calvin, director, community development program, department of community programs, and the Hubert Humphrey Institute of Public Affairs, University of Minnesota .....	350
Bright, Matilda .....	1217
Byrnes, Raymond F., Jenkintown, Pa. ....	53
Dammann, David A .....	1223
Drewyer, Dennis Glenn .....	1218
Eager, Kathryn, Washington, D.C. ....	3
Friedman, Richard, president, Promenade Tenants Associations, Bethesda, Md. ....	87
Gates, Jane, Milwaukee, Wis. ....	13
Goetze, Rolf, author, former Boston Redevelopment Authority director of housing revitalization programs .....	509
Goolsby, Madge .....	1217
Gouletas, Nicholas S., chairman, American Invsco Corp., accompanied by Thomas L. Ashley, former Member of Congress, State of Ohio; Dr. Andrew F. Brimmer, former member, Board of Governors, Federal Reserve System; James F. Fitzpatrick, Washington legal counsel; and David Kaplan, director, customer relations .....	780
Graham, Catherine, Washington, D.C. ....	10
Gray, Hon. William H., III, a Representative in Congress from the State of Pennsylvania .....	87
Hartman, Chester, Legal Services Anti-Displacement Project, Berkeley, Calif. ....	375
Jeffords, Hon. James M., a Representative in Congress from the State of Vermont .....	326
Kaplan, Jack, Rogers Park Tenants Committee .....	185
Lauber, Daniel, principal consultant and president, Planning/Communications .....	275
Masotti, Louis H., Center for Urban Affairs and Policy Research, Northwestern University .....	317
McDonough, John, acting director, Massachusetts Tenants Organization ..	231
Merson, Martin, former resident of the Promenade, Bethesda, Md. ....	7
Miller, Harold, chairman of the board, First Condominium Development Co., Chicago, Ill. ....	1189
Pastalan, Leon, director, environmental aging program, Institute of Gerontology, University of Michigan, Ann Arbor, Mich. ....	170
Rosenthal, Hon. Benjamin S., a Representative in Congress from the State of New York, and chairman, Commerce, Consumer, and Monetary Affairs Subcommittee: Opening statement .....	1
Scott, René, of Boston, Mass. ....	8
Sheridan, Robert, cochairman, National Multi-Housing Council, Chicago, Ill. ....	1087

IV

Statement of—Continued	Page
Sklar, Charles .....	1216
Stack, Geoffrey, president, Regis Homes, Inc., Newport Beach, Calif.....	1167
Wilson, Ida, Chicago, Ill .....	75
Letters, statements, etc., submitted for the record by—	
Ashley, Thomas L., former Member of Congress, State of Ohio: Prepared statement .....	892-915
Atlas, John D., vice president/legal counsel, New Jersey Tenants Organization: Prepared statement.....	202-230
Beal, Kathleen, Washington, D.C.: Prepared statement.....	162-169
Beckman, Allan J., attorney, Beaver Hill Tenants Association, Jenkintown, Pa.: Appendix to statement.....	125-130
Bradford, Calvin, director, community development program, department of community programs, and the Hubert Humphrey Institute of Public Affairs, University of Minnesota: Prepared statement .....	354-374
Brimmer, Dr. Andrew F., former member, Board of Governors, Federal Reserve System: Prepared statement.....	916-1027
Byrnes, Raymond F., Jenkintown, Pa.: Prepared statement.....	57-74
Dammann, David A.: Prepared statement.....	1226-1232
Eager, Kathryn, Washington, D.C.: June 29, 1978, article from the Washington Star entitled "The Cruellest Game in Town".....	6
Friedman, Richard, president, Promenade Tenants Association, Bethesda, Md.: Exhibits to prepared statement.....	94-119
Affidavits of persons who entered into a purchase agreement with Promenade Enterprises Limited Partnership.....	134-144
Gates, Jane, Milwaukee, Wis.: Prepared statement.....	17-52
Goetze, Rolf, author, former Boston Redevelopment Authority director of housing revitalization programs: Prepared statement.....	516-774
Gouletas, Nicholas S., chairman, American Invsco Corp.: American Invsco Corporation and NTHC, Inc., and their subsidiaries and affiliated partnerships—Summary of project to date sales and costs, November 30, 1979.....	816-818
American Invsco's response to charges made by tenant witnesses at the subcommittee hearings on March 30, 1981.....	835-859
American Invsco's special assistance lease and Grosvenor subsidization data .....	804-812
Information concerning advertisements for units at the Promenade....	889-890
Prepared statement and submissions to March 11, 1981, requests from subcommittee.....	1028-1086
Graham, Catherine, Washington, D.C.: Prepared statement.....	12
Hartman, Chester, Legal Services Anti-Displacement Project, Berkeley, Calif.: Prepared statement.....	378-508
Kaplan, Jack, Rogers Park Tenants Committee: Prepared statement.....	189-198
Lauber, Daniel, principal consultant and president, Planning/Communications: Prepared statement.....	284-316
McDonough, John, acting director, Massachusetts Tenants Organization: Prepared statement.....	234-252
Masotti, Louis H., Center for Urban Affairs and Policy Research, Northwestern University: Prepared statement.....	337-350
Miller, Harold, chairman of the board, First Condominium Development Co., Chicago, Ill.: Submissions to subcommittee questions.....	1193-1205
Pastalan, Leon, director, environmental aging program, Institute of Gerontology, University of Michigan, Ann Arbor, Mich.: Prepared statement.....	172-182
Rosenthal, Hon. Benjamin S., a Representative in Congress from the State of New York, and chairman, Commerce, Consumer, and Monetary Affairs Subcommittee: Advertisements from various publications.....	869-870
April 1, 1981, letter from Arnold & Porter concerning videotaping the third day of hearings.....	1236-1241
Schechter, Henry B., director, Office of Housing and Monetary Policy, AFL-CIO: Prepared statement.....	259-275
Sheridan, Robert, cochairman, National Multi-Housing Council, Chicago, Ill.: Prepared statements.....	1088-1106, 1107-1165
Stack, Geoffrey, president, Regis Homes, Inc., Newport Beach, Calif.: Prepared statement.....	1174-1188



## APPENDIXES

	Page
Appendix 1.—Additional statements and letters submitted for the record.....	1243
Appendix 2.—Correspondence between subcommittee and Government agencies .....	1319



## CONDOMINIUM AND COOPERATIVE CONVERSION: THE FEDERAL RESPONSE (Part 1—Overview Hearings)

MONDAY, MARCH 30, 1981

HOUSE OF REPRESENTATIVES,  
COMMERCE, CONSUMER,  
AND MONETARY AFFAIRS SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Benjamin S. Rosenthal (chairman of the subcommittee) presiding.

Present: Representatives Benjamin S. Rosenthal, Eugene V. Atkinson, Doug Barnard, Jr., Peter A. Peyser, Hal Daub, William F. Clinger Jr., and John Hiler.

Also present: Representative Elliott H. Levitas, of Georgia.

Staff present: Peter S. Barash, staff director; Theodore J. Jacobs, general counsel; Doris Faye Ballard, clerk; and Jack Shaw, minority professional staff, Committee on Government Operations.

### OPENING STATEMENT OF CHAIRMAN ROSENTHAL

Mr. ROSENTHAL. The subcommittee will be in order.

Today the Commerce, Consumer, and Monetary Affairs Subcommittee begins 3 days of hearings into the Federal response to the national condominium and cooperative conversion trend.

These hearings mark the first comprehensive oversight review of the condominium conversion phenomenon and the full range of Federal banking, tax, securities, and housing laws that impact this trend.

This week the subcommittee will examine the dynamics of the conversion marketplace. Tenants displaced by conversions, housing experts, and several of the Nation's leading condominium converters will provide answers to the following questions:

What are the present and future trends in condominium conversions?

What areas of the country are most affected?

To what extent is the Nation's rental housing stock being reduced by conversion?

What types of rental housing are now being impacted?

What happens to tenants displaced from converted buildings?

What age or socioeconomic groups are most frequently displaced?

Is there comparable rental housing to absorb these individuals?

Who are the purchasers of condominiums and for what reasons are these purchases made?

What is the impact of conversions on housing prices in converted buildings and in surrounding communities?

A second set of hearings, to be held in several weeks, will carefully examine the role of Federal laws and the performance of relevant Federal agencies in the conversion process.

At that time the Washington Federal Savings and Loan Association and the Chase Manhattan Bank of New York will also appear.

This subcommittee's interest in condominium conversions began in the 96th Congress when extensive hearings were held, including regional hearings, into the effectiveness of the Federal Government's anti-inflation program.

We found that in many cities the rapid rise in the cost of living was paced by skyrocketing housing costs. Complaints were voiced over the disappearance of reasonably priced rental housing as a result of the conversion tide. Witnesses wanted to know what the Federal Government was doing to combat housing inflation.

In August of 1980, the subcommittee initiated its investigation. The condominium-related activities of the relevant Federal agencies were examined. Information was gathered from tenant groups, housing experts, and condominium converters. The operations of American Invsco Corp., the Nation's leading converter, were analyzed.

In October 1980 Congress enacted title VI of the Housing and Community Development Act which expressed the sense of Congress that:

Lending by Federal insured lending institutions for the conversion of rental housing to condominium and cooperative housing should be discouraged where there are adverse impacts on housing opportunities of the low and moderate income and elderly and handicapped tenants involved.

Section 602 of the act states that:

There is a Federal involvement with the cooperative and condominium housing markets through the operations of Federal tax . . . laws, through the operation of federally chartered and insured financial institutions and through other Federal activities; that the creation of many condominiums and cooperatives is undertaken by entities operating on an interstate basis.

During floor debate on the legislation, Congressman Henry Reuss of Wisconsin, then chairman of the House Banking Committee, stated that:

The Nation's scarce pool of credit for new capital investment, small business, farmers, and particularly new housing, is sufficiently strained so that it makes no sense to encourage its use for the purpose of evicting unwilling tenants, further lowering the Nation's short supply of rental housing, and raising housing costs in the building involved and throughout the area. The Federal regulatory agencies . . . aware of the congressional expression, should present that point of view on the same basis that they all discourage and encourage various undesirable and desirable loans in many other areas today.

In dozens of major cities across the country, newspapers report almost daily on the controversy surrounding the condominium conversion issue. Some of our witnesses will testify that conversions are highly beneficial to developers and purchasers and that they broaden a city's tax base.

Others will argue that the conversion juggernaut is reducing affordable rental housing and creating a whole new class of displaced Americans; that conversions contribute to housing inflation without creating new housing stock; and that the condo conversion



marketplace is operated as much for the benefit of investors as for those seeking a place to live.

We believe that these hearings will provide the Congress with a necessary overview of these issues so that Federal policies—which are presently unformed, fragmented, or inconsistent—can be properly responsive to the important public policy issues raised by the conversion phenomenon.

Our first series of witnesses this morning are Kathryn Eager of Washington, D.C., and I wish all of you would come up and take your seats behind the sign that indicates your name; Martin Merson, former resident of the Promenade, Bethesda, Md.; René Scott, of Boston, Mass.; Catherine Graham, of Washington, D.C.; Jane Gates, Milwaukee, Wis.; Raymond F. Byrnes, Jenkintown, Pa.; and Ida Wilson, of Chicago, Ill. This will be our first panel.

We are very grateful to all of you for appearing before us and giving us the wisdom and benefit of your experience. We find this an extraordinarily important event, these series of hearings, and they could not be held efficiently or effectively without you.

I am going to ask all of the witnesses in these 3 days of proceedings to be sworn in, so I would ask each of you to stand and raise your right hand.

Do you solemnly swear that the evidence you shall give touching the subjects of investigation of this committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

Ms. EAGER. I do.

Mr. MERSON. I do.

Ms. SCOTT. I do.

Ms. GRAHAM. I do.

Ms. GATES. I do.

Mr. BYRNES. I do.

Ms. WILSON. I do.

Mr. ROSENTHAL. You are all appropriately sworn.

In addition to the traditional television cameras, I want to indicate for the record that the chairman of the committee has agreed to permit American Invscro to videotape these proceedings. This was done at their specific request, and I felt that they ought to have that opportunity, in view of the potential of whatever use they want to make of those proceedings.

We shall begin, I suppose, from left to right.

Ms. Eager, you are first. We are delighted to have you with us. I want to say just this: Take your time, feel comfortable, and if you want a glass of water take it. Be as free and easy as you would like to be.

#### STATEMENT OF KATHRYN EAGER, WASHINGTON, D.C.

Ms. EAGER. I am ready now. Can you hear me?

Mr. ROSENTHAL. We can hear you pretty good.

Ms. EAGER. My name is Kathryn T. Eager, 4740 Connecticut Avenue, NW.; age 75. My health condition is variable.

Before marriage I was a high school teacher of history and English. I am a widowed grandmother, fairly comfortable financially. I have a cleaning woman once a month and haven't been able to afford a car for 20 years.

In 1973 I had just recovered from a severe cancer operation when my first notice to move came. The apartment building had to be entirely vacated because all plumbing was to be torn out.

We gathered in the lobby one evening to say goodbye. Some tenants had lived there for 30 years, as workers and then as retirees. Our faces were wet with tears.

I had lived there 15 years and dreaded the ordeal of searching for a new home. I was 67 years old. Luckily I found an apartment across the street. It cost \$500 to move so short a distance.

Many vacations were canceled that summer. I remember one woman in particular who was so disoriented by this experience that premature senility was induced.

A year later I returned to see what the developer had done to improve the old building. I found that its delapidated elegance was replaced by a plastic fraud. There are now three law suits filed by unit-owners against developers who have done only a cosmetic rehab on Connecticut Avenue conversions.

After settling in my new home I began to save money for a nursing fund in case my cancer recurs. Buying most of my clothes in thrift shops, giving up cigarettes, and never caring about alcohol anyway, I was able to save a nice sum of money.

In 1977 the second notice came to buy or get out. Conversions were now in full swing. Tenants were moving from rental to rental, some as many as five times, while the speculators made and still make millions, much of which is not deposited in local banks.

I became enraged again, because a stranger could alter my plans for living. I began to write letters to the city council and make speeches, determined to get a condo law with restraints.

In the meantime I decided to take a risk and buy brick and mortar with my nursing fund plus help from my two children. I had to save my strength and secure a permanent place to live. The choice has a high price tag, but I am saving again for a nursing fund but at a much slower rate because of inflation.

Other elderly women suffer from the severe trauma of displacement. One took 20 sleeping pills as a way out. She was discovered in time and underwent psychiatric treatment. When she improved she found another apartment.

Her future is still uncertain because the moratorium which saved her building is now on the docket to be challenged by developers. She lives in limbo.

Another acquaintance, 68, had a nervous breakdown after having to move twice and losing two jobs. After months of confused living, she moved to another apartment where she suffered a heart attack and now walks with a cane. She hopes this apartment will be her home when her last heart attack comes.

A woman, 80 years old, has a steel rod for a thigh bone and is sightless in one eye. She had to move to an efficiency. She could not afford to use her small nest egg for a downpayment to purchase her apartment. She must keep it for an illness that lurks in the wings for all elderly people.

She has one close young relative who lives in Missouri, but she has not been invited to move there.

It is common knowledge that displacement of elderly people induces severe trauma and all too often suicide. It is cruel and unusual punishment for growing old in America.

Four basic restraints to protect tenants against unfair practices by landlords and developers are:

First, tenants shall have the right of first refusal when the owner of a rental apartment building decides to sell. Such a purchase by tenants will be called a cooperative.

Second, a conversion of a rental apartment building to a condominium cannot take place unless 51 percent of the tenants vote aye. If they vote nay, the owner must wait a year before holding another election.

Third, the passing of money by a landlord or developer to a tenant or tenants shall be considered a violation of owner-tenant relationship and penalties shall be imposed upon both parties.

Fourth, an elderly person 62 years of age or older, and a handicapped person shall have statutory tenancy for life without regard to income. When the unit is vacated by death or other causes, the developer may sell the unit.

The following jurisdictions give life tenancy without regard to income to persons 62 years and over: San Francisco, Calif.; Walnut Creek, Calif.; Oakland, Calif.

Michigan had given life tenancy regardless of income, but our compassionate friends, American Invsco, changed the law thus: 65 to 69, 4 years' stay; 70 to 74, 6 years' stay; 75 to 80, 7 years' stay; 80 years or older, 10 years' stay.

Thus the essence of life is diminished by these time bombs. The elderly know time is ticking away their lives. Does the roof over their heads have to tick away, too?

Thank you.

Mr. ROSENTHAL. Thank you very, very much, Ms. Eager.

[An attachment to Ms. Eager's statement follows:]

KATHRYN T. EAGER:

## 'The cruellest game in town'

There are four words I dislike when put together. They are: Buy or get out. That's what the notice means in your mailbox, announcing your apartment building has been sold for conversion to a condominium. Buy or get out!

What does it matter that suddenly a hundred or so people have a traumatic problem imposed on them by the developer who speculates not only in real estate but also in people's lives? I hope he becomes an endangered species. He develops anguish and despair, especially among the elderly. There is a choice but it has a price tag. Buy the apartment you have been rent-

ing. This is no time for old people to buy real estate. Most of them are living on fixed incomes. Their savings are earmarked for illnesses that are already weakening them or are sure to come later.

As for myself, this is the second time in four years I've been notified to move. Four years ago, it cost \$300 to move across the street. There were many vacations cancelled that summer. The developer was at it again. But this time I'm not moving. I'm 4 years older — 71

*Mrs. Eager, a former school teacher, lives in Washington.*

### Point of View

— and it takes a lot of stamina to look for an apartment — and could I find one in a familiar neighborhood? Or anywhere else?

How long before the developer would be after my newly found home? No! I am saving my strength — staying near my friends and doctor because I have cancer. But to stay where I am means I must take half my nursing fund and buy brick and mortar. There is nothing unique in my case. You

can multiply it a thousand times and a thousand tears will fall. Well — so much for humanity in real estate.

But what about the elderly who have to move? In 1975, the National Council of Senior Citizens undertook a survey "of 97 renters who had moved from 10 randomly selected converted buildings in the District. The survey showed that 92 per cent found it harder to see their families after moving, 81 per cent found it harder to get to church, and 76 per cent found it harder to see their doctor. Forty-five per cent experienced ill health effects which were more particularly described as depression, mental dis-

tress and great anxiety. Several felt the continuing fear that their new building would go condominium and again they would be uprooted. Old people and old trees cannot be uprooted without dying.

According to Dr. Martin Seligman in studies at the National Institute of Mental Health: "Elderly persons who are forced to move lose control of their lives. Deterioration of mind and body sets in. Then comes a deep depression which replaces the will to live."

Many commit suicide and many suicides go unreported. The doctor writes on the death certificate — suicide — cause: Unknown.

But some people in the building know the cause. One elderly woman in our building attempted suicide but was rescued in time to face the turmoil of what to do — where to go — once more. These are "the Golden Years," yet there are more suicides among the elderly than any other group in America.

Psychology Today states that "growing old in America is tantamount to losing control. We kill many of our senior citizens by denying them choices, purpose in life, control over their lives. Many of these deaths are premature and unnecessary." A ray of hu-

maneness suddenly showed through in the conversion of Parkfairfax where 20 of the elderly who did not want to move were allowed to stay as tenants. I hope some of this compassion is allowed to float across the Potomac.

We all grow old — so old and young must help each other. What you young men and women do today will be the foundation of your old age tomorrow. Write your mayor and city council how you feel about conversions, the treatment of the elderly. A few persons can't do it all. Bombard them with letters, phone calls, interviews. Let them know you know. Join The Committee to Save Rental Housing.

Perhaps Dylan Thomas said it best, "Do not go gentle into that good night — old age should burn and rage at close of day — rage, rage against the dying light!"

That is what I'm doing. I rage against the turmoil thrust into people's lives by the conversions — the cruellest game in town.

Want to give the readers of The Washington Star your thoughts about something large or small? Write Point of View, The Washington Star, 225 Virginia Ave. SE, Washington, D.C. 20041. Articles should be no longer than 650 words.



Mr. ROSENTHAL. Mr. Merson?

STATEMENT OF MARTIN MERSON, FORMER RESIDENT OF THE  
PROMENADE, BETHESDA, MD.

Mr. MERSON. May it please the committee, I have no prepared testimony. My name is Martin Merson. I am a native of Portsmouth, Va., having been born 75 years ago.

Why did I come to the Promenade in Bethesda? I was living in my own home in Greenville, N.C. I have a very serious war injury. It is described by the chief of neurology of the Medical Center as a postencephalitic tremor with elements of torticollis. I gave this information to the Invasco people in connection with my application for an extension of the lease. I was granted a 2-year extension but decided to turn it down on the basis that my condition being what it is today, and being of progressive nature, it is not likely to be any better 2 years hence. If I had to move, this was the time to do it.

It may interest the committee to know that I am a graduate of Annapolis. I am a graduate of Harvard Law School. I have a Ph. D. from the University of North Carolina. I have had careers in the Navy, in business, in education, and I also served in the Eisenhower administration.

I came to the Promenade with the high hopes of remaining there for the remaining years of my life. It was my thought that being within walking distance of both the Navy Medical Center as well as NIH, where I have had treatment, would make it easier for me, in the event I was unable to drive a car.

My hopes were dashed.

It may interest the committee to know that in order to hold this particular apartment I paid rent there for 10 months before I was able to sell my home in North Carolina, and within a matter of months after physically moving in the word came of the conversion.

Obviously I could not afford to go from some \$495 a month to something approaching \$1,400 a month. I don't have that kind of money. The meager savings that I have are used to supplement my income.

I was hurt at the very outset of the war while serving the Executive Office of the Advance Naval Base at Guadalcanal in the British Solomon Islands. I was in a coma, spent some 18 months in naval hospitals during World War II, and now by dint of great effort I keep myself very busy.

I got a doctoral dissertation in 1974. I have written a book concerning my experiences in the Eisenhower administration with Senator McCarthy. And I am prepared to write another book on the subject of my doctoral dissertation which deals with United States-Latin American relations, providing I can come to rest long enough to get this book written.

I have moved twice since leaving the Promenade, and I am now in a rental house in Williamsburg, Va., where I have been fortunate enough to get a neighbor to drive me here for treatment.

I was in NIH about a week ago. They are going to bring me back as soon as they can get a protocol prepared to try additional experimental drugs.

It seems to me that what this committee is doing in focusing on this dreadful problem of housing for all the citizens is one of the most worthwhile activities of Congress.

I am not here today to excoriate American Invsco. That does no good except for a flash in the headlines. What we need are some permanent laws to control this situation, for the future.

You know, living in North Carolina, I visited pig farms and chicken ranches and cattle feedlots. The owners of those places wouldn't think of placing tenants under this kind of stress because they know it would affect their salability.

Why do we do it to human beings? This has to stop.

Now, I might point out one ironical factor here. The man that sold this building to Invsco should not escape without censure, Mr. Nathan Landow. He made a terribly big profit on this sale. He was one of Mr. Carter's chief fundraisers, and he is the man who made this possible.

It takes two to tango, and so we have to control the situation at its source through the tax laws and through legislation.

Thank you.

Let me say one other thing, Mr. Chairman. I didn't content myself here with simply joining the tenants' association. I spent 1½ hours one day with one of the key members of the Montgomery County Council. He told me that the pressure on the Montgomery Council by the real estate lobby was out of this world and that unless tenants organized to help the council it could do nothing to help us.

I wrote to Governor Hughes. I wrote to the attorney general. I did everything in my power to bring this to the attention of the local and State government.

This brings home to me the absolute necessity for Federal legislation.

Thank you. [Applause.]

Mr. ROSENTHAL. Thank you very, very much, Mr. Merson. We very deeply appreciate your testimony.

Ms. Scott?

#### STATEMENT OF RENÉE SCOTT OF BOSTON, MASS.

Ms. SCOTT. My name is Renée Barro Scott. I live in Jamaica Plain, since 13 years in a rent control apartment. My age is 75.

Mr. ROSENTHAL. Will you tell us where Jamaica Plain is?

Ms. SCOTT. In Boston. I am sorry.

I am suffering from conditions and health problems which are a result of having been in a concentration camp in Germany, and also suffering from a very bad leg caused by a negligent taxi driver.

I worked 11 years as a ward secretary at the Boston Hospital for Women in Brookline, Mass.

I am living on my social security, plus a small pension from the hospital, plus a small disability pension due to my concentration camp where I stayed 3½ years and where I was condemned to death twice. Disability was for a heart condition.

I worked for the international underground and was decorated by the Prince Regent of Belgium, Prince Charles.

This conversion has affected my health greatly. I am extremely nervous, and even with all the medications I have to take I cannot sleep. I worry for my family and for myself.

The condo conversion. They started by changing all our locks and even changing our personal police locks.

By tearing down my bathroom, taking out my toilet and bathtub for 2 days at the time, and telling me to go to any vacant apartment to use the bathrooms, that there were plenty of vacant apartments next door, demolishing walls in the hall and bathrooms, pulling out kitchen sinks, and leaving us without water days long, also leaving me without electricity many, many times.

Barging into my house without even knocking at the door.

Telling me I had to get rid of half of my belongings because I would not be able to find an apartment otherwise.

These conversions are separating close families who have, such as I, good reasons to stay near to each other.

I did not leave everything in Belgium to come to my daughter and my three grandchildren and now, at 75 years of age, have to be separated from them and have my two pets put to sleep, because people do not want to rent to pet owners.

Concerning other people in my building: my daughter is also a victim of this condo conversion. She lives in the building next door to mine where she has lived over 13 years, No. 7 Lakeville Road in Jamaica Plain.

My grandchildren, all three brilliant scholars, summa cum laude students, were still quite young when we came to live here. We love our homes.

My grandson is a 2d lieutenant in the Marine Corps. He has been stationed in Japan almost 1 year. He left his home which he loved. When he comes back, what is he supposed to do? Go to a shelter at the Salvation Army? Where I know they would certainly accept him. But I do not think that this should be his reward after serving his country.

I really think there is no reason to throw people such as he, his sister, and his mother out on the street.

I know a few more tenants that certainly deserve to be protected also, but they are afraid, they are lost and do not know where they are going. I really feel bad for these people who have been tenants here some 17, 25, or 50 years, and, like me, because we are old, have 2 years to move, but what happens then?

There is a severe shortage of rental units in the city of Boston.

My landlord is buying everything he can lay his fingers on. He has bought a number of houses on the next street from my house. Why then didn't he relocate us? He offered me an apartment across the street for \$380 a month without heat.

My income is \$319 a month from social security. I could certainly not afford it.

Then he offered it to my daughter who could not afford it either, so he never has made a real effort to help us. But, to harass us plenty, that he sure has done: calling us up at anytime to come and show our apartment to strangers, at supertime, morning, or anytime, at their convenience.

We are the tenants, paying our rent, but he, the landlord, has the right to come into our homes when it suits him.

Now, the people who have bought my daughter's apartment call her on her unlisted phone number which the landlord gave to the new owners without my daughter's permission and now the new owners call to find out when she is going to move.

Other tenants in the complex are also being harassed by the new owner of the condominium unit.

My daughter and myself have lived on our street 13 years. It holds a lot of memories for us. My grandchildren spent all their teenage years there and my oldest granddaughter had her wedding reception in my home.

Our roots are now here, on Lakeville Road in Jamaica Plain.

I am a little more fortunate than my daughter in that I was given 2 years to move. My daughter only had 1 year and now that year is up.

With the housing shortage in Boston, one must look hard to find a livable apartment even at \$450 a month.

We are happy in our neighborhood and don't want to move. I have known my mailman for years. He rings my doorbell if I receive a check or important mail.

Many of the merchants in my neighborhood give discounts for senior citizens.

If I get sick, I am happy to know my family is close by; but now, with condominium conversion, I don't know where my family will be when I need them. My daughter and granddaughter have to move now and do not even have a man to help them.

This greatly upsets my grandson who cannot be at home to help them as he will be in Okinawa until this summer and they have to move now. He does not know where his home will be when he returns from his tour of duty this summer.

To me condominium conversion means moving from the home I love to a strange neighborhood, paying unnecessary moving expenses and paying higher rents to live in an apartment in which I don't want to move to in the first place.

The actions taken by my landlord and the thoughts of moving have severely affected my life and health. I am always depressed and don't know what tomorrow will bring.

I implore you dignified Members of the House to take the necessary action to insure that the tragedy of condo conversion will cease.

Thank you and God bless you.

Mr. ROSENTHAL. Thank you very, very much.

Ms. SCOTT. Excuse me, Mr. Chairman. These are my decorations I received by the Prince Regent of Belgium.

Mr. ROSENTHAL. Thank you very, very much. We appreciate your testimony very much.

Ms. Graham?

#### STATEMENT OF CATHERINE GRAHAM, WASHINGTON, D.C.

Ms. GRAHAM. My name is Catherine Graham.

Mr. ROSENTHAL. Why don't you sit back. We will move the microphone. Sit back, relax, and take it easy.

Ms. GRAHAM. I am now living at 2515 New Hampshire Ave. NW, apartment 406. I lived at 2000 16th St. in the Balfour Apartments



for 14 years when I was given a notice to move, that they were going to turn the apartments into condominiums

The owner of the building, who is Bruce Corneil, came and asked all of us if we could move, and I told him I had no place to move.

I am a State Department retiree. I worked there 31 years. I have lived in 2000 16th St. for 14 years. I have four great nieces and nephews I am trying to help to raise. I have tried very, very hard to live in that apartment and do right.

I told Mr. Corneil I had no place to move, and when I could find a place I would let him know. Mr. Corneil harassed me and other tenants in the building for the 90 days. He offered first to pay us \$100 if we would move. I told him no, I could not move in that length of time.

I looked and I looked. I was on TV and told my story in the past. I had no place at all to go. So through the hunting around myself and from the priest at the church helped me and tried to go along with me to get me a place.

I filled out applications for a project, the Portner Apartments. I was refused those apartments in there, three rooms, because they said I had too many children. So I tried again and finally I found a place of my own across the street where I am living now.

I have only three rooms. Thank God for that. I am comfortable for heat and hot water. But over in the place where Corneil had us, we were not safe. We did not have locks on our doors or anything.

He still harassed and it caused me a terrible illness, and I took with a stroke May 5, 1980, and since then I have been very, very bad off in a way that I cannot walk alone any distance.

I have cataracts on my eyes. I have to go next month and have one of them removed. And it has been very, very hard for me.

I get a small bit of money from my niece each month to help me with these children, along with my retirement funds.

Bruce Corneil promised to help the tenants to find a place. He has never helped anyone, but continued to harass us, so he gave each of us, that I know of, \$1,000 to move. That was only enough to pay the moving people, because it costs too much to move. I lost many, many beautiful antiques that came from the old home. I had no way to get rid of them other than just to give them away. I did not sell them because I could not find anyone at that time to buy.

So I am saying that Bruce Corneil did not treat us fairly and we were poor people.

I am now in three rooms, as I have told you.

I thank you.

Mr. ROSENTHAL. Thank you very, very much.

[Ms. Graham's prepared statement follows:]

Testimony/ March 30, 1981

Miss Catherine Graham  
2013 New Hampshire Av. NW  
Washington, D.C. 20009  
234-6839

Miss Graham is an elderly tenant in her seventies. She resided at 2000 Sixteenth Street Northwest for fourteen years. In February, 1980 she received a notice that her building, the Balfour, would be converted to condominium and that she would have 120 days to find other housing. Miss Graham is the custodial guardian of three nephews and a niece.

The management of her former apartment assured her that they would find her suitable housing; they began the process for application to the Portner Apartments, subsidized rentals in the neighborhood. But the Portner turned Miss Graham down on the grounds that she had too many children. All during that winter Miss Graham was harrassed by the management about when she was going to move. Several people took an interest in Miss Graham's plight. Fred Thomas interviewed her on TV; Polly Shakleton tried to help. But she still couldn't find a place to live. By May the pressure was too much; she suffered a stroke and was hospitalized for two weeks. When she regained her strength Miss Graham herself found her present rental apartment. Situated across the street from her former rental apartment of three bedrooms, living room, dining room, kitchen, bath and pantry Miss Graham now lives in an apartment with one and one-half bedrooms, a living room and bath and kitchen. She is paying almost \$100 more in rent per month. She feels secure in this setting, though, because she trusts the landlord ( Wm. C. Smith) and does not expect to be displaced again. She signed a one-year lease and has been told that she will be given lifetime tenancy after that period.

Mr. ROSENTHAL. Ms. Gates.

STATEMENT OF JANE GATES, MILWAUKEE, WIS.

Ms. GATES. Congressman Rosenthal, committee members—

Mr. ROSENTHAL. I am not sure that mike is working as good as it ought to. Maybe it is not turned on or something.

Ms. GATES. My name is Jane Miller Gates. I live in the Knickerbocker Hotel, 1028 East Juneau, Milwaukee, Wis. I have one daughter. I am 54 years of age, medically retired.

After a marriage of almost 30 years I was divorced. When my former husband was in college I worked to support my family at a variety of jobs, sales girl, model, factory worker, and schoolteacher.

For most of the first 15 years of marriage I worked full time. In addition, I have done a great deal of voluntary work.

I am here to represent not only myself but also my friends and neighbors who are residents in buildings scheduled for condo conversion.

The residential hotel in which I live, the age range goes up to 102, so basically if you are under 80 you are still just a kid.

The situation in my building clearly demonstrates the disruptive influence on the lives of those threatened by conversions; the fear and uncertainty is taking its toll on everyone. It is absolutely devastating.

Most of the permanent residents moved in with the understanding that this would be their final home. The services offered within the hotel, the help and consideration from the management team, and the friendship and support amongst the family residents has quite literally been a lifeline for many of us.

In the past I have had bypass surgery twice and it was my good fortune to have a splendid cardiac surgeon and excellent nurses. Throughout all of this, up to and including today, my Knickerbocker family not only sustained me, they also gave my daughter enormous emotional support. We simply could not have made it through the past few years without them.

The Knickerbocker Hotel offers a truly unique combination for services. Some of them are the Juneau Club. Members of this group receive their room or apartment with maid and linen service, three home-cooked meals daily, and their own private dining rooms, meal trays delivered to their apartments if they are sick, along with planned social activities, a 24-hour-a-day switchboard service, and this is staffed by very competent, able, caring people. They do everything for us from taking messages to calling the rescue squad.

The hotel pharmacy and coffee shop, the pharmacist provides delivery of prescriptions, food, and other items to any resident who needs or wishes the service. The owners, Jim and Bob Searles, encourage all of the residents and their other customers to use their coffee shop as a social club. In fact, Mrs. Searles paid her own way from Milwaukee to escort me here because she knew that I should not travel alone, which I think is really above and beyond.

There is always a hairdresser in the building who serves both men and women.

Because of these services it is possible to live independently, comfortably, and securely without ever needing to leave the hotel. This offers an innovative alternative to the practice of isolating the

elderly and those with physical limitations in nursing homes or high-rise housing.

The unnecessary warehousing of the elderly and disabled is a terrible waste of human resource.

A number of the young people who live in the hotel and in the neighborhood have told me repeatedly how much they enjoy some of our 80-to-95-year-olds. They say that knowing them has alleviated their fear and concern of growing old themselves.

It would truly be a tragedy and waste for the entire community to lose all of this.

While the impact on the elderly, poor, and disabled is devastating, condo conversions pose serious problems for people of all ages and backgrounds.

Whether one is a student, full-time worker, whatever, anyone who is unable to buy a condo is confronted with a steadily diminishing range of rentals that simply drives the rents higher and higher, and totally out of reach of the very people who cannot afford to buy a condo.

I would like to share with you personal circumstances of just a couple of people I know, Edward Zeiss, Knickerbocker Hotel, Milwaukee, Wis.

He is 48 years old, manager for an insurance company, single. He recently had a foot amputated because of diabetes. He does not have sufficient funds to buy a condo. He states, "I certainly need all of the facilities here at the hotel and all of the people I know here."

Emily Reik. She is also at the Knickerbocker Hotel, 64 years old. Postal clerk. Single. Does not wish to buy. She knows she would be unable to make the high mortgage payments after she retires.

She states emphatically, "Converting a 55-year-old hotel gives a high risk to the buyers, and I am very disturbed by the thought of having to move."

A 40-year-old man who lived on the sixth floor of the hotel received his 30-day eviction notice for September 2, 1980. He moved into another building a block away. November 1, just 2 months after he moved in, he received notice of the owner's intent to convert that building. That man works as a stock boy for a department store. He is mentally retarded.

Between July 11 and December 15, 1980, we received various communications from the owner of our building. The first two were July 11 and July 21, and the first one was to the residents on the sixth floor stating that the owners' representatives would be around to look over the units, and the purpose was to just check that out. There was no mention made of conversion.

July 21 the eviction notice to the residents on the sixth floor, and the purpose, well, they were to remove from premises on or before September 2, and the purpose was to restore and refurbish the hotel. No mention, again, was made of conversion.

Then on July 23 the Milwaukee Journal headline said, "Knickerbocker Going Condo."

For some of the residents, and particularly some of the very, very elderly, that was the first knowledge they had that the building was going condominium.

Then on July 29 the residents did receive a letter from the owner informing us that the building was to be converted.

August 12 we had a meeting in the lobby with the owner—Congressman Henry Reuss was there with us—and the owner made many promises at the meeting. Father James Leach of the All Saints Cathedral was there also, and he had the meeting taped.

In the period of time since, Father Leach has tried to get the owner to put in writing his promises and the owner has steadfastly refused to do so.

August 19, another letter from the owner stating that—I'm sorry. I am just paraphrasing part of the thought in these—that all of the elderly permanent residents could stay and rent, but they could be moved from the apartment at the owner's convenience.

September 5, a two-page letter from the owner's partner, and it was a beautifully written letter that said virtually nothing. Several lawyers who looked it over said that it was, you know, a charming letter, but it really gave us—it was so filled with ambiguities that there was no help in it.

October 10 we received a formal announcement of conversion giving the price of the unit. December 9 the Milwaukee Centennial's headline "State Sues Plunketts On Knickerbocker."

Then on December 15 most of the tenants were offered a 1-year lease.

It has just been total confusion. Many of us have felt that we probably can identify with the people sitting on death row. We don't really know what is going to happen. We are waiting for our appeals to be heard.

A number of the residents simply couldn't tolerate this confusion and anxiety. Some went into nursing homes and others who have the financial ability bought into retirement homes. Other people in the building who have limitations are really terrified that with the conversions they too will be forced into nursing homes.

This is truly a cruel and inhumane situation for those who are being victimized. According to Aristotle, a mark of a civilized society is how it treats its children. Shirley Chisholm recently quoted Hubert Humphrey during his last speech on Capitol Hill. He enunciated this concept most eloquently, and I am quoting from Mr. Humphrey's speech:

The moral test of a government is how it treats those who are in the dawn of life, the children; those who are in the twilight of life, the aged; and those who are in the shadows of life, the sick, the needy, and the handicapped.

Several of my neighbors told me I should save my strength and not come here today. When I asked, "Why not; at least try," their response was "We are just old folks. Nobody really cares about us."

I refuse to believe that in the America that I love and cherish, people who are no longer able to work for pay are throwaways.

One of your own colleagues, Congressman Henry Reuss, was a fellow resident at the Knickerbocker for about 5 years. In 1979 he purchased his grandmother's house which is a block away from the Knickerbocker, so he is still one of our neighbors, and I think he can describe some of our 95-year-olds and how enchanting they are as they go around with their walkers and their horn on the walker, and on the busy street in front of our hotel even people out of State



will slow down and let them cross and give a salute as they honk their little horn on the walker at them.

Congressman Reuss is concerned about condominium conversion, and his visit with us in August 1980 helped inspire section 603 of the Housing and Community Development Act, the sense of Congress resolution, the Federal Government is involved in condominium conversion through their mortgage insurance to lenders all over the country.

I urge you to support and strengthen section 603. We need your help.

Thank you for the opportunity to appear before you.

Mr. ROSENTHAL. Thank you very, very much.

[Ms. Gates' prepared statement follows:]

Congressman Rosenthal, Committee Members:

My name is (Mrs.) Jane Miller Gates. I live in a residential hotel in Milwaukee, Wisconsin. I have one daughter. I am 54 years of age, medically retired. After a marriage of almost 30 years, I was divorced. While my former husband was in college I worked to support my family; as a salesgirl, model, factory worker, and school teacher. For most of the first 15 years of marriage I worked full-time. In addition I've done a great deal of volunteer work.

I'm here to represent not only myself but also my friends and neighbors who are residents in buildings scheduled for condominium conversion.

The situation in my building clearly demonstrates the disruptive influence on the lives of those threatened by conversions. The fear and uncertainty is taking its toll on everyone. It is absolutely devastating. Most of the permanent residents moved in with the understanding this would be their final home.

The services offered within the hotel, the help and consideration from the management team and the friendship and support amongst the "family" residents, has quite literally been a life-line for many of us.

In the past year, I've had by-pass surgery twice. It was my good fortune to have a splendid cardiac surgeon and excellent nurses. Throughout all of this...up to and including today, my "Knickerbocker family" not only sustains me they also give my daughter enormous emotional support. We could not have made it through the past few years without them.

The Knickerbocker Hotel offers a truly unique combination of services.

Some of these services are:

The Juneau Club: members of this group receive their room or apartment with maid and linen service; three homecooked meals daily in their own private dining rooms, meal trays delivered to their rooms if they are sick, along with planned social activities.

Twenty-four hour a day switchboard service; staffed by able, caring people. They do everything from taking messages for us to calling the rescue squad!

The Hotel Pharmacy and Coffee Shop: The pharmacist provides delivery of prescriptions, food, and other items to any resident who needs or wishes the service. The owner of the Hotel Pharmacy allows, in fact encourages, the residents and all other customers to use the coffee shop as a social club.

There is a hairdresser in the building who serves both men and women.

Because of these services it is possible to live independently, comfortably and securely with out ever needing to leave the hotel.

This offers an innovative alternative to the practice of isolating the elderly and those with physical limitations in nursing homes or hi-rise city housing. The unnecessary warehousing of the elderly and disabled is a terrible waste of human resource. A number of the young people who live in the hotel and in the neighborhood have told me repeatedly how much they enjoy some of our 80 to 95 year olds. They say that knowing them has alleviated their fear

and concern about growing old themselves. It would truly be a tragedy and waste for the entire community to loose all of this.

While the impact on the elderly, poor and disabled is devastating condo-conversions pose a serious problem for people of all ages and backgrounds. Whether one is a student, full-time worker ... whatever... anyone who is unable to buy a condo is confronted with a steadily diminishing range of rentals. This simply drives the rents higher and higher and totally out of reach of the people who cannot afford to buy.

I would like to share with you the personal circumstances of several people I know, as additional examples of the negative impact conversions have.

Edward Zeiss: 1028 E. Juneau Avenue Milwaukee, WI., 48 years, manager for an insurance company, single, recently had a foot amputated because of diabetes, does not have sufficient funds to buy a condo. He states, "I desperately need all of the facilities here at the hotel and all of the people I know here".

Emily Ryk: 1028 E. Juneau Avenue Milwaukee, WI. , 64 years old, postal clerk, single, does not wish to buy, would be unable to make high mortgage payments after she retires. She states emphatically, "Converting a 55 year old hotel gives a high risk to the buyers. I'm very disturbed by the thought of having to move."

We have many elderly people in our building who must use walkers and canes. They are terrified that with the conversions they will be forced to go into nursing homes. Many have outlived their relatives. Several told me I should save my strength and not come here today. When I asked "Why not at least try?", their response was, "Nobody really cares about us. We're just old folks". I refuse to believe that in the America I love and cherish, people who are no longer able to work for pay are throw-aways. WE ASK YOUR HELP!

I appreciate the opportunity to appear before your committee.

Thank You.

(Mrs.) Jane Miller Gstes  
Knickerbocker Hotel  
1028 E. Juneau Ave.  
Milwaukee Wisconsin



## Chronology of written communication to tenants of Knickerbocker.

- July 11, 1980: letter to 6TH floor residents; stating Mr. Plunkett's representatives will visit all units on 6. Purpose: to study room layouts and insect equipment.  
NO MENTION MADE OF CONVERSION
- July 21, 1980: eviction notice to residents on 6TH floor, "remove from premises on or before Sept. 2, 1980". Purpose: to restore and refurbish hotel.  
NO MENTION MADE OF CONVERSION
- July 23, 1980: Milwaukee Journal headline, "Knickerbocker going condo"
- July 29, 1980: letter from Mr. Plunkett, tenants are informed the hotel will be converted
- Aug. 5, 1980: letter from 10 area churches pledging their support
- Aug. 11, 1980: letter from a physician who has a number of patients living at the hotel, he states, "another move would be disastrous for them physically and emotionally"
- Aug. 11, 1980: letter from Mr. Plunkett, "the position of long term residents remains the same..."
- Aug. 12, 1980: meeting in the lobby with Mr. Plunkett, he made many promises, the questions and answers were taped by Father James Leech of All Saint's Cathedral.
- Aug. 19, 1980: short letter from Mr. Plunkett stating all Elderly permanent residents may stay and rent
- Aug. 21, 1980: letter to Fred Lindner Dir. of Milw. Co. Office on Aging
- Sept. 4, 1980: letter from Congressman Reuss, his pledge to help prevent eviction and harassment
- Sept. 5, 1980: letter from Milwaukee New Town, Inc. signed by John T. Gilligan, "The owner of this building wishes to assure you that all of your rights will be protected ...." two pages of ambiguities  
Father Leech had requested that Mr. Plunkett put in writing all of the promises he, Mr. Plunkett, made to the residents at the meeting in the lobby on Aug. 12  
Mr. Plunkett has steadfastly refused to do so
- Oct. 10, 1980: letter to all residents from John Gilligan, Milw. New Town, Inc., formal announcement of conversion
- Oct. 30, 1980: documentation of two rent raises in one year
- Dec. 9, 1980: Milwaukee Sentinel "State Sues Plunketts on Knickerbocker Ads"  
Milwaukee Journal "State Sues Plunketts over Condo Ads"
- Dec. 15, 1980: most tenants were offered a one year lease to "allay your fears and make a feel more secure as a tenant"

## TOTAL CONFUSION!

A number of residents simply could not tolerate the confusion and anxiety. Some went into nursing homes and others who had the financial ability bought into retirement homes. They still consider the Knickerbocker their real home.

When one man who lived on the sixth floor received his eviction notice, he moved into another building. On November 1, 1980 just three months after receiving his eviction notice at the Knickerbocker and only two months after moving into another apt. building, he received notice of the owners intent to convert that building to condos. This is truly a cruel and inhumane situation for those who are being victimized.

F. W. MADISON MEDICAL ASSOCIATES, S.C.  
425 EAST WISCONSIN AVENUE  
MILWAUKEE, WISCONSIN 53202

F. W. MADISON, M.D.  
H. W. POHLE, M.D.  
R. D. FRITZ, M.D.  
G. G. DARIEN, M.D.  
N. L. OWEN, M.D.  
G. R. HUGHES, M.D.  
G. J. SKULASON, M.D.  
L. WESTROP, M.D.  
P. E. HANKWITZ, M.D.

August 11, 1980

Mr. Jim Searles  
1028 E. Juneau  
Milwaukee, WI 53202

Dear Mr. Searles:

I realize that the Knickerbocker is in the process of being sold as condominiums. I do happen to have a number of patients there for whom another move is quite disastrous in that they felt this was their final move, and physically and emotionally are ill equipped to handle the effort of another transfer. I am referring to such patients as Esther Jepson and Isabel Blonlen. I do hope you will consider this carefully in your decision.

Sincerely,



R. D. Fritz, M.D.

RDF/jb



# Knickerbocker

ON THE LAKE

JUNEAU AT THE LAKE, MILWAUKEE, WISCONSIN 53202

*Apt. 506*  
TELEPHONE  
276-8500

September 29, 1980

Dear Tenant:

Due to the high cost of operations, there will be a 10% rent increase as of November 1st, 1980.

Your rent will be \$286.<sup>00</sup>

Yours truly,

THE MANAGEMENT

**OLIVER PLUNKETT & ASSOC.**

Suite 400  
1846 North Farwell Avenue  
Milwaukee, Wisconsin 53263  
Phone (414) 378-6510

*Tax Sheltered Investments**Real Estate**Complete Estate Planning*

July 11, 1980

Dear Guest:

On Monday, July 14th and Tuesday, July 15th, representatives of our firm will be visiting all the Hotel accommodations on the sixth floor. Their purpose is to study the room layouts and to inspect the mechanical equipment.

Since they will be accompanied by members of our management, you need not be present during our visit.

If you have any questions, do not hesitate to call the hotel management.

Your cooperation is appreciated.

~~Yours Sincerely,~~  
*Mrs. Lilian Post*  
Mrs. Lilian Post

**OLIVER PLUNKETT & ASSOC.**

Suite 400  
1840 North Farwell Avenue  
Milwaukee, Wisconsin 53208  
Phone (414) 278-8310

Tax Sheltered Investments

Real Estate

Complete Estate Planning

July 21, 1980

Dear Guest:

For over half a century the Landmark Knickerbocker Hotel has stood at the center of Milwaukee's most prestigious residences, churches and offices.

During the past year, our firm has studied this hotel and conducted a feasibility study for restoring the structure, accommodations and furnishings to their original grace and beauty.

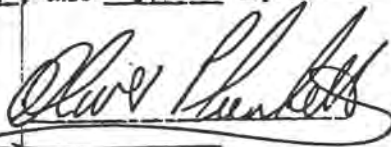
We are pleased to announce now that an extensive program will begin shortly to restore and refurbish the Hotel. This work will proceed on a step-by-step basis, one floor at a time, and will commence on August 1, 1980.

On that date, our workmen will begin restoration and remodeling of the sixth floor of the Hotel.

Therefore, this is notice to you to terminate your tenancy. This requires you to remove from the following described premises on or before September 2, 1980, which is the last day of the rental period.

Description of premises: efficiency apartment

Dated at Milwaukee Wis., this 21<sup>st</sup> day of July, 1980.



Mrs. Lillian Post



July 23, 1980

Milwaukee Journal

THE MILWAUKEE

## Knickerbocker going to condos

The Knickerbocker on the Lake, an East Side hotel built in 1928, will be converted to condominiums, Oliver Plunkett, the owner, said Wednesday.

Plunkett, a real estate developer with substantial East Side investments, said the conversion would progress floor by floor, beginning with the 6th floor. The eight-story hotel, at 1028 E. Juneau Ave., is on valuable property near the lakefront. Plunkett bought it in 1978 from George Bockl.

Residents of the sixth floor received eviction notices in a letter from Plunkett Monday. The letter, which did not announce the condominium conversion, told the tenants to move from their rooms by Aug. 30 to accommodate remodeling and

restoration of the hotel. Residents of other floors who were contacted Tuesday said they knew nothing about a conversion.

The 210-room hotel has permanent residents as well as temporary guests. Some residents have expressed concern to County Supervisor Harout Sanasarian that they will be evicted. Many are elderly, including about 45 on the second floor who are members of the Juneau Club, a permanent residency operation for elderly citizens that includes meal service.

Plunkett said the letters to sixth-floor residents were distributed before a final decision was made on the conversion. He said he would send new letters to the tenants Wednesday making the condominium conversion announcement and telling residents who lose their rooms during construction that they can move to other rooms within the hotel.

"The announcement also will state they will have first option to buy their unit if they so wish," Plunkett said. "We're not going to put anyone in the street."

In quoting purchase prices for the condominium units, Plunkett said efficiencies would cost about \$20,000, one-bedrooms between \$25,000 and \$40,000 and two-bedrooms between \$50,000 and \$60,000.

# OLIVER PLUNKETT & ASSOC.

Suite 400  
1840 North Farwell Avenue  
Milwaukee, Wisconsin 53202  
Phone (414) 278-8310

Tax Sheltered Investments

Real Estate

Complete Estate Planning

July 29, 1980

Dear Resident:

Since announcing restoration plans for the Landmark Knickerbocker Hotel, our office has received many requests for purchasing hotel apartments.

Such inquiries reflect the high regard with which the Milwaukee community looks upon the hotel. They also confirm our intentions to restore the building to the grandeur of its proud past.

Accordingly, I am hereby notifying you that it is the intention of the owner, upon completion of the remodeling and restoration of the sixth floor apartments, to convert said apartments to condominium units.

In the remodeling process, your unit will be improved, and its actual size may be altered. After inspecting the completed units, you may find another sixth floor unit even more desirable.

Whatever your choice may be, I wish to assure you that you will have a right of first refusal for the purchase of your present unit after the remodeling has been completed and the price has been established. I will endeavor to help you acquire financing toward the purchase of this unit.

During the next few weeks, workmen may be visiting your apartment to obtain measurements for their materials. I wish to thank you for your cooperation and your indulgence for the inconvenience occasioned by this project.

Cordially,

Oliver Plunkett

OP/rw

Aug. 5, 1958

## TO THE RESIDENTS OF THE HOTEL KNICKERBOCKER:

SOME OF YOU HAVE RECENTLY RECEIVED THIRTY-DAY EVICTION NOTICES, AND MORE NOTICES MAY BE MAILED IN THE FUTURE. WE WANT YOU TO KNOW THAT MANY RELIGIOUS GROUPS IN MILWAUKEE ARE DEEPLY CONCERNED FOR YOU AND YOUR FUTURE. WE ARE DOING ALL WE CAN TO PREVENT, OR AT LEAST DELAY, SCHEDULED EVICTIONS. WE WANT TO ASSURE YOU OF OUR CONTINUING CONCERN FOR YOUR WELFARE. SHOULD EVICTIONS TAKE PLACE, WE WILL DO ALL IN OUR POWER TO ASSIST YOU IN EVERY WAY POSSIBLE. ~~WE WILL DO OUR BEST TO HELP YOU FIND SUITABLE LIVING QUARTERS, AND TO HELP YOU MOVE. REGARD-~~ LESS OF FUTURE DEVELOPMENTS, WE REMAIN ACTIVELY COMMITTED TO YOU AND WILL HELP EACH OF YOU IN ANY WAY WE CAN.

IMMANUEL PRESBYTERIAN CHURCH  
 FIRST UNITARIAN CHURCH  
 THE VILLAGE CHURCH (LUTHERAN)  
 SUMMERFIELD UNITED METHODIST CHURCH  
 ST. PAUL'S CHURCH (EPISCOPAL)  
 HOLY ROSARY CHURCH (ROMAN CATHOLIC)  
 ST. JOHN'S CATHEDRAL (ROMAN CATHOLIC)  
 ALL SAINTS' CATHEDRAL (EPISCOPAL)  
 TEMPLE EMANU-EL  
 MILWAUKEE JEWISH COUNCIL  
 OFFICE OF HUMAN CONCERNS--  
 ARCHDIOCESE OF MILWAUKEE

**OLIVER PLUNKETT & ASSOC.**

Suite 400  
1848 North Farwell Avenue  
Milwaukee, Wisconsin 53202  
Phone (414) 378-8510

*Tax Sheltered Investments**Real Estate**Complete Estate Planning*

August 11, 1980

Dear Resident:

I greatly appreciate this opportunity to share with you some thoughts relating to the future of The Knickerbocker on the Lake, and more particularly to your future home here. Two important points, I believe, deserve some brief clarification.

First, long ago I developed as a business goal the restoration and improvement of property on Milwaukee's East Side. A familiar example for many of you are the two large apartment buildings on Knapp Street, in back of this building. After an extensive restoration program undertaken by our company, we received many compliments from home owners and neighborhood residents, including the good Sisters at St. Catherine's Residence. Some of the patrol officers from the Milwaukee Police Department even commented upon the improved attitude shown by the residents of the improved properties.

Secondly, I should like to point out that it has long been a principle of mine to advise, encourage and assist in every way my associates and employees in purchasing their own homes. With this in mind, I have frequently spoken with officers of financial institutions and government officials about ways in which we could offer apartment renters, regardless of their age or income, the opportunity of home ownership. Everybody should have the right and the opportunity to purchase some part of their apartment each month rather than merely collect an envelope of rental receipts. After all, what is more American than the freedom and economic security that comes with home ownership.

These thoughts have long been in my mind as plans have been developing for The Knickerbocker. I know of no reason why the splendor of this landmark building, with all of its proud history, should remain shrouded in the misty past. You would agree too, I am certain, that young Milwaukeeans deserve to see now and appreciate today the restored elegance of The Knickerbocker On The Lake.

I have undertaken therefore to restore this building and to renovate it with our most modern conveniences. The structure and all the mechanical equipment will be examined and improved so that our home here can assume the position of importance it once enjoyed throughout the whole city.

The announcement of this restoration program a few days ago brought to our office inquiries and requests from persons, young and old, desirous of purchasing apartments and establishing their home here with us. This public response came as no surprise to us. No other building can offer for prices starting at under \$20,000 a lakefront home surrounded by parks and boulevards, within a five minute walk of downtown.

The position of long-time residents at The Knickerbocker remains secure. If they wish to purchase their apartments, a special discount will be given to them. A discount will also be given to members of their families who may wish to purchase an apartment for their parents or relatives. If long-time residents prefer to rent, they may do that as well.

I wish to assure members of The Juneau Club that the services offered to them will continue now as in the past. In the days ahead I intend to visit with these members and personally communicate this thought to them.

Finally, I have a special request to make of the long-time residents. Our staff of interior designers and landscape architect will be seeking to meet and discuss with you plans which are being developed for our home here. Your insights and advice would greatly assist them in building a home here at The Knickerbocker On The Lake which all of us can be proud of for ourselves, our family and friends.

I look forward to meeting with you tomorrow evening at 7:30 p.m. in the lobby.

Cordially,

*Oliver Plunkett*  
Oliver Plunkett

OP/xs

9-13-90

## Condominium plans rejected by crowd

By ROBERT H. EDELMAN

Developer Oliver Plunkett Tuesday failed to convince a sometimes unruly crowd of 250 of his good intentions in converting the Knickerbocker Hotel into condominiums.

The crowd booed Rep. Henry Reuss (D-Wis.) for only mildly imploring Plunkett to exercise "human relations."

Typical in tone at the two-hour meeting conducted by Plunkett in the hotel lobby was the charge by Father James Leach of Episcopal All Saints' Cathedral, 818 E. Juneau Ave., that the conversion plan had driven some elderly residents to insomnia, hysteria and possibly physical illness.

At a subsequent counter-meeting in the Knickerbocker Hotel Pharmacy, Rep. Stephen Leopold (D-Milwaukee) urged residents to find out the names of Plunkett's co-investors and to get his qualified "no eviction" promise in writing.

### Several join protest

A representative of the East Side Housing Action Coalition said that Legal Action of Wisconsin was interested in bringing suit against the conversion and on behalf of one low-income resident of the hotel.

Also protesting or questioning the conversion were suspended Circuit Judge Christ Seraphim, restaurant

owner Sally Papla; Sen. James Moody (D-Milwaukee), County Supervisor Harout Sanasarian, a coalition of nine religious congregations, the Milwaukee Jewish Council and the Office of Human Concerns of the Archdiocese of Milwaukee.

Plunkett refused to name anyone besides himself and his wife, Monica, who have an financial interest in the building. He said no political figures were involved.

Leopold expressed concern that Plunkett could be a "front man" with no ability to fulfill his promises to let "long-term" and handicapped residents keep renting their units and to increase rents only about 10% after renovation.

### Seeks 'humanitarian gesture'

As he leaned on a device to aid him in walking, William Buech, 61, who has lived at the hotel for three years, asked Plunkett to give up the conversion plan as a "humanitarian gesture."

In response to one angry resident's question, Plunkett said that "within 30 days" he would give residents a report on how much maintenance fees would be after the building is converted.

He said "I deeply apologize" for giving the first hint of his plan in a letter to some residents saying that their units would be remodeled.



HOTEL PHARMACY, INC.  
1030 EAST JUNEAU AVENUE  
MILWAUKEE, WIS. 53202

TELEPHONE (414) 272-4384



City Federal Savings and Loan Association  
Board of Directors  
600 West Wisconsin Avenue  
Milwaukee, Wisconsin 53203

August 18, 1980

Dear Sirs:

On May 29, 1980 the Register's Office of Milwaukee County recorded a mortgage granted by City Federal Savings and Loan Association to Oliver Plunkett and Monica Plunkett DBA the 1028 Company, a co-partnership for the Knickerbocker Hotel. One of the terms of the mortgage states that any conversion of the Knickerbocker Hotel to condominiums without City Federal's permission would be considered a default.

On August 8, 1980 I discussed the above mentioned clause with Mr. Marchese, an employee of City Federal. He stated that I should understand that any decision City Federal made would be based on its position as a lender. Mr. Marchese indicated that after all, who was more collectable- Oliver Plunkett, or a group of tenants?

I understand your position is that of cash flow. I think you will agree however, that institutions have a civil obligation when making financial decisions. When considering granting permission for the condominium conversion, beside financial position, please consider moral obligation, the human element, and your decision's effect on the lives of the residents of the Knickerbocker Hotel.

Sincerely yours,

James L. Searles R.Ph.

**OLIVER PLUNKETT & ASSOC.**

Suite 400  
1840 North Farwell Avenue  
Milwaukee, Wisconsin 53208  
Phone (414) 278-8710

Tax Sheltered Investments

Real Estate

Complete Estate Planning

August 19, 1980

Dear Resident:

Thank you for attending the meeting on Tuesday night regarding the condominium conversion.

Please accept my apologies for any misinformation which may have come from our office these past few weeks.

The other purpose of my writing you is to reiterate my commitment, namely that all permanent elderly residents may continue to rent if they choose not to purchase their apartments.

If you feel uncomfortable or are confused about this matter please feel free to call me at my office. Either my secretary or I will be there to speak with you.

Cordially,

*Oliver Plunkett*  
Oliver Plunkett

OP/js

RECEIVED AUG 22 1980

**OLIVER PLUNKETT & ASSOC.**Suite 400  
1040 North Farwell Avenue  
Milwaukee, Wisconsin 53202  
Phone (414) 278-8510

Tax Sheltered Investments

Real Estate

Complete Estate Planning

August 21, 1980

Mr. Fred Lindner, Director  
Milwaukee County Office On Aging  
Fenwick Building, Room 208  
1442 North Farwell Avenue  
Milwaukee, WI 53202

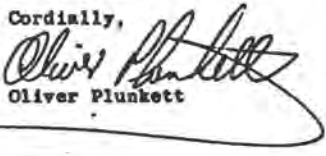
Dear Mr. Lindner:

Thank you for attending the meeting last Tuesday night regarding the condominium conversion of the Knickerbocker Hotel to condominiums.

Recently, I sent to all of the residents of the Knickerbocker a letter (copy of which is enclosed) to reiterate my decision to allow the permanent elderly tenants to continue to rent if they do not choose to purchase their units.

Although I realize that hotel is not a retirement or nursing home project, and I am in no way obliged to have made this decision, I sincerely feel that it is the humane thing to do.

Cordially,

  
Oliver Plunkett

OP/js  
Enc.

HENRY S. RAUSS  
 8th District, Wisconsin  
 2015 Democratic House Office Building  
 Washington, D.C. 20515  
 Phone: 202-225-3071  
 H.S. RAUSS'S OFFICE  
 P.O. Box 100,000  
 517 East Wisconsin Avenue  
 Milwaukee, Wisconsin 53202  
 Phone: 414-661-1201

Congress of the United States  
 House of Representatives  
 Washington, D.C. 20515

September 4, 1980

COMMITTEE  
 BANKING, FINANCE AND  
 URBAN AFFAIRS  
 SUBCOMMITTEE ON THE CITY  
 CHAIRMAN  
 JOINT ECONOMIC COMMITTEE  
 INTERNATIONAL ECONOMIC DEVELOPMENT  
 CHAIRMAN

Mr. James L. Searles  
 Hotel Pharmacy, Inc.  
 1030 East Juneau Avenue  
 Milwaukee, Wisconsin 53202

Dear Sir:

Thank you for your recent letter giving the background of Oliver Plunkett's attempt to evict residents of the Knickerbocker Hotel. We have met with representatives of the ministerial group, headed by the Reverend William Parrish, and my position remains the same as theirs: one of strong opposition to the Plunkett proposal.

I shall continue to do everything I can to protect the Knickerbocker's residents from eviction or harassment, and I appreciate your offer to see that copies of this letter are distributed to all concerned.

Sincerely,

*Henry*

Henry S. Rauss  
 Member of Congress



1840 North Farwell Avenue  
Milwaukee, Wisconsin 53202  
414/278-0504

September 5, 1980

Dear Tenant:

As you know, The Knickerbocker On The Lake is to be converted to condominiums. The owner of this building wishes to assure you that all of your rights both legal and moral will be protected. From the very outset one fact must be made clear to you. This is not an eviction notice. It is rather a notice of the owner's intention to convert apartments in The Knickerbocker Hotel to condominiums, and to do so on a floor-by-floor plan, beginning with the sixth floor.

The purpose of this letter is two-fold:

1. To announce this intended conversion and to inform you of some of the provisions of Wisconsin Law as it pertains to condominium conversions.
2. To outline the procedure for the conversion.

Because you are a current resident of The Knickerbocker, you cannot and will not be required to vacate your unit for a period of 120 days following receipt of this letter (unless you should violate the terms of your lease or fail to pay your rent). You also have the exclusive right to purchase the unit in which you live for a period of 60 days following receipt of this letter. This right is in effect whether you wish to purchase your unit in "as is" condition or after it has been renovated.

If you wish to purchase your unit in "as is" condition you may do so at a discounted price. The prices of the units will be made available within approximately 30 days.

If you wish to purchase a renovated unit, you will be able to do so beginning with units on the sixth floor, though we will consider renovating units one at a time on other floors if you are anxious to buy before we do your entire floor. Upon completion of work on the sixth floor, renovation will begin on another floor.

The owner of The Knickerbocker has spoken publicly of his intention of attracting to the neighborhood more home owners who as permanent residents will aid in the continued rejuvenation of our important East Side community. Naturally he is also concerned about long-time older residents who have also become part of our community.

Arrangements have therefore been made to have certain qualified residents continue to remain as tenants.

Residents should review the following groups to determine whether or not they might qualify:

- a) Residents for a period of one year or more who are over 65 years of age.
- b) Members of the Juneau Club.
- c) Handicapped persons who have been residents for a year or more.

Because of the restoration, rents for these qualified tenants will not be raised more than 10%. This rent increase will be on a one-time raise. Please remember, however, that normal operating costs, other than restoration and renovation costs, may necessitate standard yearly increases.

If you consider yourself a qualified resident you have two options. You may purchase your unit or continue to reside in the building as a tenant paying rent. If you should decide to reside as a tenant, after the 120 day grace period you will be asked to move, at the owner's expense, to another unit in the building so that your unit can be renovated.

We hope that you recognize our strong desire and willingness to handle this conversion in a responsible and compassionate manner and we further hope that you can begin to relax and share our enthusiasm for the renovation of our proud landmark.

Respectfully,

  
John T. Gilligan  
President

JTG/rs

HOTEL PHARMACY, INC.  
1030 EAST JUNEAU AVENUE  
MILWAUKEE, WIS. 53202

TELEPHONE (414) 272-4384



9-16-80

Newspapers Inc  
Milwaukee Journal  
Editorial Department  
333 W. State  
Milwaukee, WI  
53203

Dear Sirs:

The only fog that over the Knickerbocker lies in the heads of the Journal's editorial department. As they do not seem to comprehend or discover the events, let us look at them. On May 13, 1980, Oliver Plunkett called me to indicate that the Knickerbocker Hotel was going condominium. I called my attorney, L. Williamson, for consultation. On July 10, 1980, John Gilligan representing Oliver Plunkett came to the pharmacy stating that the pharmacy area could be purchased for \$50 per square foot before the lobby was remodeled or \$60 per square foot afterwards. On July 11, 1980, the hotel residents recieved a letter on Oliver Plunkett & Assoc, stationery signed by Mrs. Lillian Post. The letter states that representatives of Plunkett's firm would be visiting all the rooms on the sixth floor to study room layouts and inspect mechanical equipment. The letter mentions nothing of condominiums. Mrs. Lillian Post, manager of the hotel for the past 2 years and former owner and manager for about 14 years, knows most of the residents by name. The next letter sent to the sixth floor residents was on July 21, 1980. It states that the hotel is going to be refurbished and

80-239 59



HOTEL PHARMACY, INC.  
1030 EAST JUNEAU AVENUE  
MILWAUKEE, WIS. 53202

TELEPHONE (414) 272-4384

2



restored to its original grace. It then gives a 30 day legal  
eviction notice. At no point does it mention condominiums.  
Residents of the hotel began to call Steve Leopold, state representative  
and Herouit, Sanasarian, Milwaukee county supervisor. I called  
Steve Leopold to discuss the situation. After being called the  
Milwaukee Journal sent reporters to the hotel to ask their  
opinion of the conversion. Of course the residents could not  
not respond because they had not been told of the conversion.  
On July 23, 1980 The Journal had an article which stated that  
the Knickerbocker Hotel was being converted to condominiums and  
the process would progress floor by floor beginning with the sixth  
floor. This was the first indication to the residents from Mr.  
Plunkett that the building was going condo. On July 29, 1980, Oliver  
Plunkett sent another letter to the sixth floor residents  
announcing that the hotel was to be remodeled. Residents would  
have a first right of refusal. It mentions nothing what so ever  
as to allowing any tenants to stay. I then proceeded to organize the  
first meeting which was held in the pharmacy's coffee shop and the  
pharmacy area. At the meeting, Richard Buerger, representing Oliver  
Plunkett, said that Mr. Plunkett would meet in the Hotel Pharmacy's  
coffee shop at the same time and same place for another meeting.  
This was filmed by TV and reported in the paper as such. After the  
meeting was set up in the coffee shop, after a PA system was wired  
in so that all could hear, after chairs were rented, after government  
officials were used to speak, after 1000 notices were sent out to  
the neighborhood, after Steve Leopold confirmed the action in a

HOTEL PHARMACY, INC.  
1030 EAST JUNEAU AVENUE  
MILWAUKEE, WIS. 53202

TELEPHONE (414) 271-4384



letter Mr. Plunkett, after signs were posted for 3 days, then Mr. Plunkett stated that he would not attend the meeting because he was having another meeting at the same time in the Knickerbocker Hotel lobby. Further, at his meeting, he and he along would be allowed to speak and then he would only answer questions from residents of the hotel. Independent of my action, Harrouit Sanasarian attempted to arrange on meeting where all could speak. He was refused by Oliver Plunkett. Next, the Rev. William Parrish from the Methodist church and a representative from the Village church went to Mr. Plunkett to attempt a single meeting. They were refused. I talked to Mr. Plunkett at 3:25 that afternoon and offered a single meeting if all who wanted to speak or ask questions could be heard. He refused. The next letter of September 3, 1980 sent to the residents of the hotel was signed by John Gilligan, a relative and employee of Oliver Plunkett. First the letter states that it is not an eviction notice. Then the letter conveys the 120 day notice following receipt of the letter. It states that residents over 65 and handicapped residents of more than one year occupancy could stay. When the Rev. W. Parrish called John Gilligan to find out what that meant, he was told that the senior citizens and handicapped residents would be given a one year lease. They could be moved from their unit. If their unit was sold, they had no rights. This was not what Oliver Plunkett promised at the meeting in the lobby. All comments in the lobby were recorded. All were typed by a legal secretary. What Mr. Plunkett promised and what he has indicated that he will do, are not the same.

HOTEL PHARMACY, INC.  
1030 EAST JUNEAU AVENUE  
MILWAUKEE, WIS. 53202

TELEPHONE (414) 272-4384



Let me make my position clear. When I stated my actions I had less than two years left on my lease. I knew that if I remained quiet that my chances of getting a new lease would be far better than if I spoke out. I chose to risk losing the business, rather than turn my back to the voices of the residents that called me for help. Yesterday Mr. Plunkett met with residents of the hotel at 1PM. At the meeting he indicated that they would be able to stay. If this be so, let him put in writing that they can stay as he earlier promised as long as they desire, in their same unit after it is remodeled. All of his promises from the lobby meeting have been transcribed. Let him set his name to them and give copies to all the residents now if he intends to honor them. A verbal promise means little if the person who makes it will not sign his name to it after it has been put in writing. At the meeting yesterday, Mr. Plunkett told one of the residents that even the pharmacist downstairs would be allowed to stay. I have requested that my attorney find out what this means. If the cost of saving my business means that I must give up my support of the residents, then the price is too high.

Sincerely yours,

*James L. Searles*  
James L. Searles, R.Ph.  
Knickerbocker Hotel

October 10, 1980

Dear *Miss Greidman*

This is a formal announcement that the owner of The Knickerbocker Hotel intends to convert this building to condominiums. Kindly read the following:

1. You may remain in your unit for 120 days (and perhaps much longer depending on the renovation schedule and your lease terms).
2. You have an exclusive 60 day right to buy your unit at a special discounted price, following receipt of this letter.
3. If you wish to buy your unit in "as is" condition, the price will be discounted further.
4. The discounted price for your unit # 707 in "as is" condition is \$ 40,000.  
The discounted price for your remodeled unit is \$ 43,000.  
A remodeled unit will be completely painted and newly carpeted, have new appliances, bath tile, kitchen cabinets, counter, sink and faucet.
5. You will be able to remain in the building as a tenant, though not necessarily in your present unit, even if you do not buy your unit, if you are:
  - a) a resident of one year or more and over 65 years of age or
  - b) a member of The Juneau Club, or
  - c) handicapped person who has been a resident for a year or more.

A sales person from our firm will be happy to call upon you within the next few days to answer your questions.

Cordially,

  
John T. Gilligan

JTG/rs



840 North Farwell Avenue  
Milwaukee, Wisconsin 53203  
414/278-0504

( 1029 E. Knapp js/ )

November 1, 1980



1840 North Farwell Avenue  
Milwaukee, Wisconsin 53202  
414/278-0504

Dear Resident:

This letter is your notice that the owner of the premises in which you now reside intends to convert same to a condominium.

Please note that the owner does not intend to sell condominium units in your building at this time. You will not be asked to move. Your present rental agreement will be honored in full and, if you desire, be extended.

However, in order to legally convert the premises now so that we may sell condominium units at a later date, we are required to give you notice of our intention. That is the purpose of this letter.

You, as a tenant, have an exclusive right to purchase your unit for a period of sixty (60) days following receipt of this notice. The price of your unit q/s will be \$ 34,500. If you are interested we will enter into a contract to sell you your unit at that price with the closing at a date to be determined.

If you wish to enter into such a contract or have any questions or wish to discuss this matter further please call our office for an appointment.

Yours sincerely,

John T. Gilligan

JRG/rs.

## State sues Plunketts on Knickerbocker ads

Dec 12-9-80 Milw Sentinel

The state Monday sued Oliver and Monica Plunkett for alleged false advertising in connection with the planned conversion to condominiums of the Knickerbocker Hotel.

The Plunketts, co-owners of the hotel, were charged with falsely advertising as early as Dec. 30, 1977, that rental units at the Knickerbocker, 1028 E. Juneau Ave., would be available for retirees and the general public for permanent residency.

Asst. Atty. Gen. Ruby Jefferson-

Moore of the State Department of Justice's office of consumer protection said she knew of no previous case in which the fraudulent advertising law had been applied to a condominium conversion.

The state asked for civil forfeitures of not less than \$50 nor more than \$200 for each violation of the fraudulent advertising law. Thus, the total amount could reach \$20,000 if one violation were found for each of the 100 or so permanent hotel resi-

dents, Ms. Jefferson-Moore said.

The state also asked for relocation fees for displaced residents. It asked for a permanent prohibition against further violations of the law by the Plunketts and against prohibitive or unreasonable rent increases by the Plunketts.

Tenants of the Knickerbocker were informed in a letter Sept. 5 that the hotel would be converted to condominiums. The letter said peopl:

would be permitted to continue renting if they were members of the hotel's Juneau Club or if they had been residents for at least one year and were handicapped or more than 65 years old.

The civil case was filed in the court of Circuit Judge Gary A. Gerlach. Ms. Jefferson-Moore said the Plunketts would have 20 days to respond. The Plunketts could not be reached for comment.

### Condo plans to be topic

Eshac, an East Side neighborhood group, will hold a meeting for area residents on condominium conversion at 8 tonight at the Knickerbocker Hotel Pharmacy, 1028 E. Juneau Ave.

Journal  
Account

## State sues Plunketts over condo ads

The State Department of Justice filed a civil lawsuit Monday contending that Oliver and Monica Plunkett had violated state advertising laws in advertising the Knickerbocker Hotel's planned conversion to condominiums.

The Plunketts are co-owners of the Knickerbocker, 1028 E. Juneau Ave.

A letter sent to Knickerbocker tenants in September said the hotel would be converted to condominiums. The letter said residents would be allowed to continue to rent units if they had been residents for at least one year, were handicapped, were over 65 years old or were members of the hotel's Juneau Club.

The suit said that the Plunketts had told state officials "that it is their intent to convert the rental units into condominium units and all residents (in-

cluding, but not limited to, retirees and qualified residents) who do not purchase a unit will be required to vacate the premises prior to or following the conversion to condominiums."

The suit asked that the Plunketts restore any losses suffered by any of the tenants because of Plunkett's actions. It also asked that a civil forfeiture of between \$50 and \$200 be made for each violation of Wisconsin advertising laws.

Ruby Jefferson-Moore, the assistant attorney general who filed the suit, said Tuesday she thought it was the first time the state had filed a suit in which laws dealing with fraudulent advertising had been applied to a condominium conversion.

Oliver Plunkett was not available for comment Tuesday morning.





# Knickerbocker

ON THE LAKE

1028 EAST JUNEAU AVENUE  
MILWAUKEE, WISCONSIN 53202

TELEPHONE  
276-8500

12/15/80

The hotel will be very happy  
so sign a one year lease on your  
apartment at the same rent.

By so doing, we hope to allay  
your fears and make you feel more  
secure as a tenant in the hotel.

Merry Christmas,

Sincerely..

THE MANAGEMENT

STANDARD FORM NO. 1546  
U.S. GOVERNMENT PRINTING OFFICE: 1964

APARTMENT LEASE

1 This lease of the apartment identified below is entered into by and between the Landlord and Tenant (referred to  
2 in the singular whether one or more) on the following terms and conditions:  
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Tenant: John Doe

Landlord: Knickerbocker Hotel

Agent for  
maintenance  
management: James  
(address) \_\_\_\_\_

Building address:  
1023 E. Tuncou Ave.  
(address) \_\_\_\_\_  
Chicago  
(city, state/zip) \_\_\_\_\_  
Chicago, Illinois 60607  
(address) \_\_\_\_\_  
Apartment number: 717

Agent for  
collection  
of rent: \_\_\_\_\_  
(address) \_\_\_\_\_  
Agent for  
service of  
process: \_\_\_\_\_  
(address) \_\_\_\_\_

Lease term: ONE YEAR Month to Month (strike if not applicable)

First day of lease term: JANUARY 24, 1981 Last day of lease term: JANUARY 23, 1982

Apartment: 1023 E. Tuncou Ave. per month Other: \$ per year

Payable at Knickerbocker Hotel on or  
before the 7th day of each month during the  
term of this lease.

Utilities charges, other than telephone, are included in the rent, except:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ which Tenant  
shall pay promptly when due. If charges not included in the rent are not separately metered, they shall be  
reimbursed on the basis of: \_\_\_\_\_  
Special conditions:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Strike clause 1 or 2, if neither is struck clause 3 controls.)  
1. This lease shall be automatically renewed, without notice from either party, on identical terms for a like term  
unless either party shall, at least 30 days before the expiration of the term, notify the other  
in writing of the termination of the lease. However, Landlord must, at least 15 days but not more than 30 days  
prior to the time specified for giving the notice to Tenant, notify Tenant in writing of the above  
provision for automatic renewal or extension.  
2. This lease shall be automatically renewed, without notice from either party, on identical terms, except that  
it shall be a month-to-month tenancy.  
Tenant shall not assign this lease nor sublet the premises or any part thereof without the prior written consent of  
Landlord. If Landlord permits an assignment or a sublease, such permission shall in no way relieve Tenant of  
his obligation under this lease.  
Upon execution of this lease Tenant shall deposit a security deposit in the amount of \$ \_\_\_\_\_ to be held by

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JUNEAU AT THE LAKE - MILWAUKEE, WISCONSIN 53202

TELEPHONE  
276-8500

4-29-80

Dear Tenant:

We regret that due to the high  
cost of operations your rent as of

June 1, 1980 will be  
\$290.00.

Sincerely,

THE MANAGEMENT



JUNEAU AT THE LAKE  
MILWAUKEE, WISCONSIN 53202



JUNEAU AT THE LAKE, MILWAUKEE, WISCONSIN 53202

TELEPHONE  
276-8500

October 30, 1980

Dear Tenant:

Due to the high cost of operations, there will be a 10% rent increase as of December 1st, 1980.

Your rent will be \$ 319.00.

Yours Truly,

THE MANAGEMENT



JUNEAU AT THE LAKE  
MILWAUKEE, WISCONSIN 53202

*Mr. Fallon*  
*#808*







Mr. ROSENTHAL. Mr. Byrnes.

STATEMENT OF RAYMOND F. BYRNES, JENKINTOWN, PA.

Mr. BYRNES. Mr. Chairman and members of the committee: my name is Ray Byrnes. I live in Beaver Hill Apartments, Jenkintown, Pa. I am 72 years of age. My wife is the same age. I would say my health is good.

I was employed for 30 years with Rohm and Haas Corp. in Philadelphia, a chemical manufacturer, in executive management in the United States, Canada, and England.

I found that one must be directly involved in a condominium conversion to fully realize the insidious effect it has on one's emotional and physical well-being. It is in fact an especially brutal and destructive blow to the elderly when it strikes.

When American Invsco Corp., through its subsidiary, Beaver Hill Limited Partnership, went condominium on November 1, 1980, all tenants in three buildings were notified of this action.

However, only the north building was to be marketed immediately. This left two-thirds of the complex off the market while strong pressure was exerted on tenants of the north building. They were lured—in fact, stampeded into buying by being offered 3, 5 percent discounts, free maintenance for 1 year, with 30 days to sign up and get some of the discounts and maintenance. This was high pressure of the first order.

You also had to go on a one and one-half basis with them. You did not receive a published price in the offering that was submitted by them. It was necessary to go to them and have a meeting with them which, of course, was a disadvantage from the start.

The tenants who did not show up for interviews, why they were contacted regularly to come see them, even if they had already said no.

Many tenants became confused and distraught at this confusion and chaos to have to face a deadline in making a momentous life decision in 30 days.

Many tenants contacted me as president of the association, particularly the elderly living on a fixed income, telling me of their problems and of the serious effect it was having on them physically, as they could not buy, thus having to face a sudden upheaval in their lives.

This has caused them many sleepless nights and worrisome days, and this has been going on since even prior to November when we suspected that the conversion would be taking place.

The Beaver Hill complex is 13 to 17 years old with 458 rental units out of a total of 800 in the borough of Jenkintown. This leaves very little opportunity for the tenants, when they are required to move, to find living accommodations in the area in which they have lived for so many years.

A majority of the tenants are in their seventies and eighties. Many are widows, having lived in Beaver Hill for 10 to 17 years. Approximately 30 to 35 tenants are disabled and will have extreme difficulty in finding alternative housing unless they go to a retirement home or a nursing home.

A number of the elderly sold their homes years ago, moved into Beaver Hill and invested their money. They have relied on the income from these investments to sustain themselves.

To use their capital to buy would result in a sharp reduction if not a complete wiping out of the earnings and savings.

Now, my particular case is not as extreme as many of the tenants living in Beaver Hill. However, I am here to represent them more than I am to represent myself, because in my case my wife and I have lived in Beaver Hill for 13 years, and intended it to be our final home. However, we still went through a period of anxiety, realizing that it was eventually going to disturb our lives, because we decided we were not going to buy and dismissed that problem from our minds quickly. There were several reasons for this.

One, I would increase my monthly output by double to buy versus rental. I considered this too much of a burden to assume immediately. It would entirely change my lifestyle because I would not have sufficient income left to live the way I would like to, as I have in the past.

In addition, I made an evaluation study and I came up with four advantages for buying, but about 11 disadvantages of buying, so that summed it up quite readily that this was not a good situation for me and my wife.

I was concerned with the extreme pressure and coercive tactics that were being used by Beaver Hill Ltd. Partnership, and through our attorney we registered our complaint and requested a more orderly and fair marketing policy to be established.

We also referred to him significant omissions or misstatements and ambiguities in the public offering statement.

This resulted in a verbal reply from Beaver Hill Ltd. Partnership. "We do not change our policies. It remains as is."

Well, that didn't afford us very much, so we had to resort to some court hearings and we went through these, and there have been some changes made, and there has been a new public offering statement issued by American Invsco Corp.'s subsidiary Beaver Hill Limited Partnership, to correct some of the conditions that exist.

But the trauma still continues regardless of that fact.

I am in favor of the free enterprise system, but I wonder if it is not being abused when a landlord having a market value on his apartment complex is listed at \$9 million-plus and he can sell it for \$18 million-plus and in turn the converter turns it over to the tenants at a rate of about \$32 million to \$36 million, that does seem to be a rather high increase in profit from the original \$9 million market value price, and certainly inflation is going to be involved in such a move on their part.

I would like to read off a series of comments and experiences of some of our tenants at Beaver Hill that have been affected by this condominium conversion.

Morton Schwam, 42 years with the civil service as an aeronautics engineer, is 82 years old. His wife is 80. She has had several coronary attacks and suffered heart damage and is confined to the bed most of the time. She doesn't want to make such a large investment considering the couple's future medical bills.

He was asked by Beaver Hills Ltd. Partnership salesman if he had any children who might be interested. He told the salesman he had a son in California in poor health and did not want him to be bothered.

His son soon received a prospectus by airmail followed by a telephone call telling him that he had better buy quickly for his parents because half the units had already been sold and he had to make up his mind; but, in fact, not half of the units had been sold at that time.

Melba Klein said she can afford to buy her apartment and said she won't because she doesn't want to be around these people, the staff of BLP. Instead, they are moving into a retirement home.

Her husband said his experience had been high pressure straight through and the owners were only after the almighty dollar.

I am quoting verbatim on these points.

Annette Eisenberg, since conversion was announced she said she prayed each night that she die before morning to relieve her of the problem she must face.

Learning of her trauma, members of her family insisted on buying her unit to relieve the anxiety of all concerned.

Irving Harburger said that what he has been faced with is the "biggest shock" he has suffered since he was forced out of Germany in the 1930's.

Mrs. Charles Wilkins, widow, lived in Beaver Hill South for 17 years. She is 87 years old, has used a walker for 12 years, and has about 10 percent vision, could not think, could not anticipate the possibility of moving from this environment she has been in for so long. She can get around the apartment, but a change to other quarters would really be a serious setback in her life.

Her son checked out the situation with Beaver Hill Ltd. Partnership sales representative just to see what could be done. He determined the cost of the unit and said he could not buy and the salesman replied, "That's too bad."

Mary Gebhardt notified Beaver Hill Ltd. Partnership office that she was terminating her lease and hereby giving 90 days notice. She was told there was no need to do that and move. She was told she could stay as long as she liked as her apartment had been sold.

Mind you, this is about 1 month or within the month that conversions were started. She was told she could stay as long as she liked as her apartment had been sold and she could continue to rent from the new owners. This was in December 1980.

How could a tenant's apartment be sold to an outsider 1 month after conversion when the law gives the tenant 6 months' exclusive option to buy that unit? That is deceit or ignorance on the part of someone involved.

At least 35 tenants, mostly women, complained of rudeness and abuse when applying for an application for special assistance programs for senior citizens over 62, to get an extra year of tenancy after proving eligibility. They had to argue just to get a receipt for the records.

This was rather a disturbing point for many of them, and toward the end of the 30-day period they were required to be eligible based on an act and letters received from the tenants were told it is not necessary to sign up now because the south and west buildings had

not been converted; therefore they didn't have to sign up. Yet on the record they were on a 30-day notice. Of course, this was later corrected.

A number of the elderly are being forced to consider retirement homes prematurely. However, in making such an application they must be placed on a waiting list in many cases from 2 to 5 years, sometimes longer, before they can gain admittance.

Mrs. Wagner, 97 years old, recognizing the difficulty in getting into a home, bought out of desperation as she could not face moving at her age.

This involves just some of the incidents that I thought I would record today. We could find more, but I feel that this is a broad coverage of just what has existed in Beaver Hill.

Thank you, gentlemen.

Mr. ROSENTHAL. Thank you very much. Mr. Byrnes, your full statement, together with attachments, will be made part of the record.

[Mr. Byrnes' prepared statement with attachments follows:]

## TESTIMONY

①

NAME RAYMOND F BYRNES

ADDRESS BEAVER HILL APTS W701

JENKINTOWN PA 19046

AGE 72 YEARS

HEALTH GOOD

FAMILY STATUS MARRIED, TWO MARRIED CHILDREN

EMPLOYMENT ROHM &amp; HARS CO, PHILA, PA - 30 YRS

EXECUTIVE MANAGEMENT, U.S. CANADA

ENGLAND, SALES &amp; MARKETING MANAGER

CURRENT ACTIVITY FOREIGN OPERATIONS, PHIL - RETIRED 1972

PRESIDENT BEAVER HILL TENANTS ASSN  
JENKINTOWN PA  
MONTGOMERY COUNTY REPUBLICAN  
COMMITTEE MAN

1. One must be directly involved in a Condominium Commission to fully realize the "insidious" effect it has on one's emotional and physical well being. It was in fact an especially brutal and destructive blow to the elderly when it strikes.
2. Rumors were rampant at Beaver Hill Complex beginning in September 1980, that the complex had been sold or in process of being sold. Contacts with owners (Fox & Co) resulted in denials. Finally on October 27, 1980 it was confirmed the complex was sold to American Dimes Corp.
3. Between October 31, 1980 and November 4, 1980 all tenants on the three building complex received a registered mailing containing a "Public Offering Statement" without an "Introductory Line" or "Purchase Program" announcing conversion of the complex effective November 1, 1980, and stating the North Building only would be renovated entirely. This left two-thirds of the complex off the market while strong pressure was exerted on tenants of the North Building, leaving them and in fact steering them into buying their own units by offering "Special Resident Discounts" and free maintenance for one year. While a two pronged attack was made by offering real estate brokers and investors all but one of the special discounts.
4. Immediately the North Building was under siege and inundated by many representations of American Dimes

(2)

Cooperation Chicago Ill., through their hastily set up subsidiary "Bear Hill Limited Partnership", who initiated a high pressure, extremely aggressive marketing technique, on a one on one basis offering tenants a series of three, five percent discounts and one year maintenance. The time limit to accept the offer was 30 days. Many tenants were startled, confused and distraught when faced with a 30 day deadline, to make such a momentous life time decision. The stopping of dates to qualify for discounts, free maintenance, settlement and mortgage arrangements was too much for residents to absorb without the aid of an attorney, a CPA, and a chronologist to assist them in digesting the offer. If a tenant did not voluntarily request an appointment, or respond to an appointment made for them, they were contacted constantly, even if no interest had been expressed.

5. Many tenants contacted me as President of "BHTA", particularly the elderly living on fixed incomes, telling me their problems and of the serious affect it was having on them physically, as they could not drug, thus having to face a sudden upheaval in their lives. There were several other many sleepless nights, and worrisome days. It is apparent causing people to move, who do not want to move and the hardship it poses for the elderly is of no concern to the Converter.
6. Some tenants who could not stand the mental anguish and torment brought other for private reasons or business considerations brought in spite of a reluctance to do so.
7. Needless to say "BHTA" succeeded in creating utter confusion and chaos with tenants in the North Building while tenants in the South and West Buildings waited, for their dreaded day of reckoning.



(5)

It finally arrived on December 8, 1980. The marketing policy was unchanged from the North Building.

8. The Beav Hill complex is 13 to 17 years old with 458 rental units, out of a total of 600 in the Borough of Jenkintown. A majority of the tenants are in their 70's and 80's. Many are widows and have lived in Beav Hill for 10 to 17 years. Approximately 35 tenants are disabled and will have difficulty finding alternate housing. A number of the elderly sold their homes years ago, moved into Beav Hill, and invested their money. They have relied on the income from these investments to sustain themselves. To use their capital to buy would result in a sharp reduction, if not a complete wiping out of their earnings and savings.

9. My wife and I have lived in Beav Hill for 13 years and intended it to be our final home. We went through a period of anxiety even though we are active and will not buy for several reasons:

- (a) As President of BHTA, I would be in direct conflict with the agreed objection of the Ass'n to rent buying
- (b) My monthly outlay would increase from \$568.00 per month as a renter, to approximately \$936.00 per month, if I ignore loss on capital investment of \$117.8 per month, including it. This is just the beginning of the cost of maintaining the apartment (See Exhibit "A")
- c. An evaluation study I made showed four advantages in buying versus 12 disadvantages in buying (See Exhibit B)



(F)

10. Concerned with the extreme pressure and coercive tactics being used "BHTA" contacted "BHL P" through the attorney, requested our complaint and requested a more orderly and fair marketing policy be established. We also referred to many significant omissions, misstatements and ambiguities in their "Public Offering Statement." Specifically we objected to "BHL P" allowing tenants only 30 days to qualify for discounts and maintenance fees within which period a buyer must secure a mortgage, while "BHL P's" more sophisticated business entity than the average tenant, allow themselves 45 days for the same purpose. We also referred to their failure to mention Sections 3402, 3404, 3410 and 3411 of Pa Act 82, which regulates Board Commissions, the unfairness of the "cash" warranty being offered, the incorrect formula used for estimating real estate taxes, the one-day visual inspection of the buildings by a N. G. engineering firm, without benefit of necessary documents and specifications.
11. "BHL P" was asked to respond promptly, in particular to our request they extend the 30 day period to at least 60 days and preferably 90 days, as their current offering is contrary to the spirit of Pa Act 82, which gave tenants the right to exercise right of first refusal from 60 days to six months.
12. The verbal reply from "BHL P" We do not change our policy! It remains as is.
13. This was an unfortunate example of total disregard for the rights of tenant buyers and an arrogant and strident attitude on the

(5)

part of B.H.P."

14. The fact "B.H.P." ~~was~~ in violation of a "Stipulation of Settlement Agreement" between the Borough of Jenkintown and the Fox Co and its successors, B.H.T.A. joined with the Borough in a suit against "B.H.P."
15. Briefly a temporary court order was issued and B.H.P. agreed they would not solicit tenants at Bear Hill to purchase units until the court case is settled. However tenants who chose to do so may voluntarily contact "B.H.P."s office. Further, "B.H.P." agreed to permit any tenant who previously entered into an agreement to purchase or went to settlement, the right to rescind the transaction within 15 days of receipt of a letter dated January 28, 1981 and receive a complete refund. A number of tenants took advantage of this offer. They also agreed to re-draft and make corrections in its Public Offering Statement. After several additional court hearings, the case was resolved, however the presiding judge ordered the case be settled between the opposing attorneys in his chambers. He did not afford the Plaintiff (Bear Hill Tenants) listed on the Civil Action to testify in open court. This precluded any chance of obtaining a ruling against "B.H.P." requiring them to refund all sales and ~~and~~ start on on a new date with a reasonable and equitable marketing program.
16. Shortly after a series of confusing letters were sent to tenants by B.H.P. on January 25<sup>th</sup>, January 30<sup>th</sup> and February 2<sup>nd</sup>, 1981. Confirming certain rulings of the court and making a number of changes in the Resident Purchase Program for the South-West Buildings.
17. This action was followed immediately by an increase

(6)

in North Building offering prices, ranging from \$500.00 to \$5000.00 with considerable irregularity. ~~Then~~ how these prices were set, example, a one bedroom apartment on the second floor up to \$5000.00 an identical apartment on the fifth floor up to \$1,000. This play could be interpreted as a signal to South and West Toronto to buy now or face higher prices later. Fact is even in the West Building some rents were increased from \$500.00 to \$4000.00.

18. This action required the Borough of Scarborough and "B.H.T.P." through their attorney's to request a conference with the presiding Judge on the case.

19. A meeting was held in the Judge's Chamber February 25th, 1981 with attorney's from all factions in attendance. The Judge decreed that although the Pa Act 81 is ambiguous with respect to price changes during the six month period, he concluded the increases made by "B.H.T.P." were not within the spirit of Act 81. It was revealed by our attorney at the time that increases also took place in the West Building. This was denied by "B.H.T.P." attorney's however, said letter was produced by the judge to prove this accusation. It was agreed all increases in unit price would be rolled back to the original November offering price in the North Building and December 1980 offering prices in the South and West Buildings till April 1, 1981.

20. "B.H.T.P." is now concentrating on sales through Real Estate Broker and Investors who are looking for tax write offs. This has become a high priority at Bear Hill, as many vacant apartments are being offered for rent through Investor Groups including a doctors

①

Syndicate who have bought up a group of a.s. tenants. Therefore speculate possible or probable participation on the part of American Swiss Coordinators. Another discrepancy. Just as tenants were put on a temporary 5% Reduced Rent "B & P" add quite a 5% Discount to the public with an additional statement "Additional Discounts Also Available on Vacant Units". This add appeared in the Sunday Press, 1/19/81 Phila. Inquirer. Therefore the public was being offered lower prices than residents. Contact with management resulted in there being another typographical error. Review of record of sales could be most enlightening.

- 21 I am in favor of the "Free Enterprise System" shown in the certain it was near intended to pad the bank accounts of landlords who sell an old apartment complex with a market value of \$2,750,000 to a dealer and/or converter who proceeds to re-load it on unfortunate tenants, peak up \$32,000,000, pack the bags and prey on the next victim.
- 22 I am also in favor of Condominiums built as such but not old apartments being converted to condominiums that are not properly zoned and result in whole sale evacuation of the elderly.
- 23 The Commonwealth of Pennsylvania has failed us up to now with a weak antiquated Pa Act 82. We pleaded by phone and with letters to Governor Shroeder ~~and the Legislature~~ who ignored us in order to protect the ribbon in voting Pa Act 82 which contained a total option

(3)

Clause. The Real Estate Lobbyists prevailed. The Federal Government has been no better. We wrote hundreds of letters to Senator Heim, former Senator Schriver and Congressman Conaghan. The long delayed replies were evasive and ambiguous, bordering on double talk. They not only did not comprehend the problem, they seemed to show little interest. State Senator Stewart J. Greenleaf was the only one to show interest. He has already introduced bills in Albany to amend Act 87. We need a three year moratorium on Condominium Commission to stop the "Londo Cray" I believe there is such a bill somewhere in Congress. Our Washington legislators wrote advising they opposed bill 2719 giving tenants 90 days before they must vacate. Where have they been?

24 I wish to commend this Committee for the first constructive effort in Washington to bring this issue to National Attention. I hesitate to over dramatize, however unless something is done to alleviate the situation, the "Gorky Camps" that have housed Displaced Persons from Cuba, Vietnam and Korea will someday soon be required to house "Displaced Senior Citizens of the U.S."

25 A cross section of comments and opinions of some tenants of Bear Hill affected by Condominium Commission as a result of harassment and anxiety follows.

(a) Morton Schwam

He is 87 year old, his wife 80 year old. He has had several coronary attacks and suffered heart damage. He confers to bed most of the time. He does not want to make such a

(9)

large investment concerning the couple's future medical bills. He was asked by a B&H P salesman if he had any children who might be interested. He told him he had a son in California in poor health and did not want them to be bothered. Her son soon received a prospectus by air mail, followed by a phone call to buy quickly because half the units had already been sold and he had to make up his mind fast. This was a typical salesman threat. I suspect Mr. Johnson considerably.

(b) Melba Klein said she can afford to buy her apartment and said she won't because she doesn't want to be around these people ~~and~~ this stuff of "B&H P". Instead they are moving into a retirement home. Her husband said that his experience had been high pressure straight through and that the Bear Hill owner was only after the ~~slightly~~ dollar.

(c) Gonetta Eisenberg

Since conviction was announced she said she has prayed each night that she die before morning to relieve her of the problem she has faced. Learning of her trauma, members of the family insisted on buying her unit, to relieve the anxiety of all concerned.

(d) Dorothy Hartuzer

He said the move - or buy chain that he has been faced with is "the biggest shock he has ~~known~~ ~~in his life~~ ~~since~~ since he was forced out of Germany in the 1930's

(10)

(e) Elyn Charles Watkins, a widow now undern Bessie Hill South for 17 years, she is 87 years old, has used a walker for 12 years and has at best 10% vision. She can get around her apartment, but a change to other quarters will be serious. Her son checked out the situation with a B.H.L.P. sales representative and when told the cost of his unit, said he could not buy. The salesman replied, "that's your tough luck."

(f) Mary Fairbank, notified "B.H.L.P." office, she was terminating her lease and was hereby giving 90 days notice. She was told there was no need for her to do that and more, you can stay as long as you like, your apartment has been sold and you can continue to rent. This was in December, 1980. How could a tenant's ~~apartment~~ apartment be sold to an outside one month after conversion?

(g) At least 35 tenants, mostly women complained of rudeness and abuse when applying for an Application For Special Assistance Program for senior citizens over 62 years which gives them an extra year of tenancy. After proving eligibility they had to argue for a receipt for their records. Toward the end of the 30 day period required to be eligible based on Act 6 and letter received from B.H.L.P., tenants were told it was unnecessary to sign up, now as the Southold West Buildings had not been converted. No notice was given in writing and no hearing. If the tenants wrote a letter requesting formal notification to their apartment. They received a letter

H. F. Jones



~~"Exhibit A"~~

Cost of Unit \$75,500

20,000 Down, Pay Cash Certificate of Deposit 8,000

"Exhibit A" <sup>less of</sup>

Cost of Unit \$75,500

\$20,000 Down, Pay Cash Certificate of Deposit at 11% <sup>less of</sup> 8,000

\$55,500 Mortgage at 14% <sup>gross</sup> per year <sup>first</sup> year

Maintenance Fee	7210
Property Tax	2064
Reduction of Mortgage	1212
	1850
	<u>\$ 14336</u>

Loss of Interest \$6816 yearly Rent

minus \$14,336 Year End Rent 0.12% <sup>902</sup>

\$ 15238

Saving on Tax Return

Total Cost

	1100
	<u>\$ 14138</u>

Comparison Cost of Rental

Comparison Rental Cost per Month \$568.00

minus Savings Overing Goods Unit.

\$936 per month <sup>less on</sup> <sup>Capital</sup> <sup>invested</sup>

to <sup>renting</sup> 1178 per month including loss.



Evaluation"Exhibit B"Advantages of Buying

1. Convenient Location
2. Least Disruptive to Life Style
3. Low Cost of Money and Refinancing
4. Security of Comparable Rentals

Disadvantages of Buying

1. Building not a True Condo
2. Buildings 13-17 year old, costly repairs and replacements imminent.
3. Not willing to take a chance on Building with Leaking Roof, Inefficient Heating and Air Conditioning, Faulty Documentation.
4. Lack of Confidence in Seller
5. Constant threat of Additional Assessments
6. Maintenance Costs will balloon.
7. Cost Prohibition Compared to Renting
8. Condo Life, likely to be disruptive with many new owners to cope with.
9. Restriction in Life style due to sharply reduced monthly income
10. Required to accept decision of Condo Assn Board on Assessments
11. Good chance Condo Member may not comply with rules
12. Probable early replacement of 13 yr old appliances

*Handwritten: Saturday March 1, 1981*

R.E. Sale — Montgomery County	R.E. Sale — Montgomery County	R.E. Sale — Montgomery County	R.E. Sale — Montgomery County
----------------------------------	----------------------------------	----------------------------------	----------------------------------

5%  
DISCOUNT  
AVAILABLE

## Welcome to Beaver Hill Condominium

*... Brought To You By The Same People Who  
Brought You Georgetown of Philadelphia  
and 191 Presidential.*

Conveniently located directly across the street from the Jenkintown commuter train station, serving the Philadelphia area and New York, Beaver Hill is set among eight and a half acres of beautifully wooded grounds. Beaver Hill Condominium offers a relaxed lifestyle in one of the most desirable residential areas in the Delaware Valley.



Luxurious amenities include: doorman and valet services, barber and beauty shop, limousine to shopping, balconies (per plan), swimming pool, fully equipped kitchens, individually controlled heat and air conditioning and master TV antenna. Guest rooms available for daily or weekly use.

Studios from \$40,000 • One Bedroom from \$57,000  
One Bedroom with Den from \$65,000  
Two Bedroom from \$72,000 • Three Bedroom from \$92,000  
Two Bedroom with Den also available

\*Additional discounts also available on vacant units.

NOTE: A nominal, fully refundable deposit will guarantee you today's price on the available condominium home of your choice on July 1, 1981. At that time you can review the prevailing mortgage rates and decide either to buy or get your deposit back in full.

*The Response To Our 1st Seminar Was Overwhelming!*  
So, Jay Lamont, Director and Faculty Chairman,  
Temple University, Real Estate Institute  
and Host of WPEN  
"All About Real Estate"  
Will Be Back For Another Seminar On March 4th  
Call Now And RSVP 887-3779.


  
**Beaver Hill**  
CONDOMINIUM

309 Florence Avenue • Jenkintown, PA

887-3779

Furnished Samples Open Daily And Sunday 9-7

Resistor Participation Invited

 A Member of The American Inesco Group

Subject to prior option by residents  
Prices subject to change without notice

NAME - Morton Schwam  
Address - Beaver Hill Apts., N 620 - Jenkintown, Pa. 19046  
Age - 82 years - Wife - 80 years

Health - Mine fair - Wife, very poor - confined to bed most of the time - 2 heart attacks - difficult breathing - broken arm - refuses to heal properly.

Marital Status - Married - two married children

March 30, 1981

My name is Morton Schwam. My wife (Gussie Schwam) and I have lived here at the Beaver Hill Apartments since the North Building of the three building complex had been built in Jenkintown, Pa.

We moved here some 15 years ago and rented our apartment from the plans as the building was not completed. We moved here because my wife had had two coronary attacks and suffered heart damage and she was confined most of the time to live upstairs on the second floor of our two story row house in Northeast Philadelphia. She could not walk up and down stairs. So we sold our house for \$13,000 and moved to the Beaver Hill Apts., to a one bedroom and one bath apartment.

My situation here at Beaver Hill is I think typical of many residents of Beaver Hill. Most people here sold their homes because they were not too well, many were widows and many were getting up in age. I will be 82 years of age in July 19, 1981 and my wife is 80 years old. We thought we could live out our years without the burden of owning a home and its problems.

But along came the American Invaco Corp. and notified all the residents that Beaver Hill Apts. were being converted into Condominiums although the buildings were not designed and built as condominiums; no separate gas meters, no separate electric meters, no separate heat pump or air conditioning, (except in the West Building), needless to say most people were shocked to hear the news and the trauma it has caused because like myself, they were not in a financial position to buy at the price American Invaco set for each unit and to pay such high mortgage rates, real estate taxes and maintenance costs, nor did they feel they wanted to be owners at this point, because they had sold their homes many years ago at a much lower market price. People became so alarmed that many moved out of Beaver Hill Apts. immediately because of the rush act that American Invaco Corp. set to sell the units. The resident program they set would remain in effect until 8:00 P.M. Dec. 2, 1980 with discounts to residents for their units as follows:-  
 1 - A 5% resident discount if they buy their own unit  
 2 - A 5% discount allowance in lieu of any and all decorating refurbishing

3 - An additional allowance equal to 5% of the purchase Price to those who close on their unit on or before January 31, 1981. Well, needless to say we were not in a position to buy our unit or any other unit because we neither had that kind of money nor had that kind of income to support such a deal as the base price they set for our unit was \$87,400 for a one bedroom and one bath on the Top (6th) floor of the North Building. This was \$2000 more than

exactly the same unit below us on the 5th floor.

In my estimation, Americ an Invesco did not come around and inspect our unit or question us of conditions, because they simply set a base price of so much a square foot. But in reality, our unit is probably the least desirable, because of the poor architectural design, for one thing the noisy old washing machines are up against our bedroom wall and since my wife is in such poor health, she is confined to bed a great deal of the time. Then, we are under the roof above us and we constantly get the noise and oil leaks of the machines and equipment for heat, hot water, air conditioning. Since we live here, we have had at least five leaks from the roof on the low hot water heat radiation in which the hard wood floors had to be replaced three times and the rugs had to be cleaned. We are now too old to consider moving to another apartment, we like to stay put.

With all this, it has caused us many sleepless nights even though we gave two years to stay here (or buy), because we are over 65 years old. Now, I am coming to the point which really got us upset because of the sales procedure of American Invesco.

Our granddaughter and her husband came in town to visit us one week end and they saw how upset we were about what was going on. They were so sympathetic that when they went home, they called their parents in California and told them about our situation. Our granddaughter's parents are our daughter and her husband who had a severe heart attack several years ago and must live in a warm climate. Well, they got very upset, so our son-in-law called the Americ an Invesco Sales Office here at Beaver Hill and wanted to know what was going on here at Beaver Hill. Americ an Invesco immediately packaged their sales literature and must have sent it to our son-in-law in California, evidently by air mail express because he received it the next day. This was all done without our knowledge, so in a few days, I received a phone call from Americ an Invesco asking me for our son-in-law's telephone number because they had not heard from him since they sent the mail. Of course, I did not give it to them because he is not in a position to buy our unit and also, we have a little pride in our old age not to depend on our children to support us.

When Americ an Invesco saw that many of the tenants were not planning to buy, they did manage to get their children, family or companies in which some tenants had an interest, to buy their unit, so they would not have to move even though quite a few tenants did buy their units. They did not really want to buy but because of the methods American Invesco used, they finally gave in and bought. They would rather have stayed at Beaver Hill as renters. Sure, Americ an Invesco has a right to free enterprise and to make a such money as they can but don't you think this is one of the major causes of high inflation in this country which we are trying to stop?

It's really the sales method as used by Americ an Invesco, such as the latest one to hold a seminar for real estate dealers and obtain a lecturer author and real estate authority named Jay Lamont, who teaches at Temple University, Phila. to give these people a mini-course in condo selling.

Name Benjamin L. Skew  
 Address 2222 Hill Apt. No 613  
 Philadelphia Pa 19046  
 Education Bryn Mawr University, Omaha Neb. + finished law for  
 about 1 year.  
 age 48  
 health Had two heart attacks one in 1967 the other in 1978.  
 marital status Married - two grown children  
 work I am a Journalist. Had no problem manufacturing  
 myself as a middle class man.

In April 1968 we moved to 2222 Hill Apt, Philadelphia Pa  
 from New York City.  
 My choice of this City was not a happy one, as I  
 still remember was employed in New York for a time  
 working for on Wall Street as a salesman & later  
 Equities Tax manager.

It therefore became incumbent upon me to find transportation  
 that would enable me to commute on a daily basis to  
 New York & the Reading R.R. was across the street from  
 the apartment house I'm running two trains in the morning  
 to Newark N.J.

Furthermore I had a history of a heart attack I was  
 advised to locate near my doctor's hospital & the ability to  
 get there in minutes & 2222 Hill felt like this. Good location  
 Advantages

At 1975 my firm discontinued business & I  
 therefore retired on May 15 1975.

At the present time I am still dependent on Con-rail as I  
 teach & teach one course at Temple University in the Center  
 of Phila. This is a new program called J.A.R.P. Temple  
 Association of Retired Professionals. My teaching class requires  
 that a class at least 15 hours I received weekly for which  
 I do not get paid. We all know that in order to have an  
 one must continue to do

The legislation of Pa. & the Govt. signed into law a legislation  
 that we could stay for two years & if we didn't stay  
 we must move.

I ask you if we find it too much & a complete change of  
 living at 75 how much more would the situation

(2) My name is Douglas R. Allen  
 Richard Allen apt. No 603  
 Cantonment, Pa. 15046  
 In April 11, 1968 my wife & I moved to New Hill apt  
 from New York City

Is it we are 71 years of age?

We have looked after other apartments but no one will  
 guarantee that they will not convert. Hence we are  
 forced just the satisfaction of going from the frozen pane  
 into the fire with the prospect of moving from one apt  
 to another.

It seems to me that if Freedom of speech does not give  
 one the right to go into a movement "free fire"  
 then Freedom of Expression does not give one the  
 right to support or change the lives of thousands of  
 people causing them distress & mental problems.

Below is a comparison of my present rent with the  
 carrying charge of my apartment were we to buy.

My rent to date is 6876.00 per year.

My apartment is priced at \$8000.

* 20,000 down Payment Cash in C.D. at 10% loan?	2,000.00
60,000 Mortgage at 14% interest rate 30 yrs	8,400.00
Maintenance fees per year	2,184.00
Taxes per year	1,309.00
Reduction of Mortgage per year	2,000.00
	<u>15,893.00</u>
Loan interest before 6876 per year & a loan at of 15,893.00 @ 12%	1,087.00
	<u>16,975.00</u>
Does a fair return.	1,256.00
Per year -	<u>15,519.00</u>

This is just the beginning of the cost of maintenance to the apt.  
 In a rental project situation the landlord does all the  
 painting, repairing, & exchange of appliances. Now all these

(2)

Steps and the responsibility & must be replaced by  
 the new owner.  
 Therefore, the Lend Lease was responsible for maintaining  
 the Common Era ~~as~~ Area the new owner is now  
 responsible for any repairs or costs needed to maintain  
 all Areas within this apartment on a pro rata basis.

Mr. ROSENTHAL. Ms. Wilson?

STATEMENT OF IDA WILSON, CHICAGO, ILL.

Ms. WILSON. Congressman Benjamin Rosenthal and members of the committee, first of all you know my name is Ida Wilson. I live at 5310 South Dorchester Avenue in Chicago. I am 68 years old and in relatively good health.

I am a teacher by profession. I retired in 1976 at the age of 63. I taught second grade in District Number 147, Harvey, Ill., for about 18 years. I am currently working on a part-time basis in the Parent Co-op for Early Childhood Education. I work with 2-year-olds.

I am married. My family consists of my husband, my son and daughter. My daughter lives in New Jersey and my son in New York.

The income of my husband and myself, totally, is \$16,000 a year. This income is derived from my part-time employment, plus our combined social security and pensions.

It has been tremendously difficult to capsule about a year and a half of a very, very painful experience in about 5 minutes or so. However, I want to thank Representative Rosenthal, his committee members, and this committee for the opportunity to hear our story.

When we received the notice from Parker-Holzman that the building that we were living in, for about 25 years, at 5344 South Kimbark Avenue, Chicago, was going condo, we were given two options: buy your apartment or move. To us, this was no choice.

To buy meant that we would have to come up with \$45,000. On the open market the price was to be \$47,000. To buy our apartment meant a downpayment of \$4,500. In our savings account at that time maybe we had \$300. Even if we had had the downpayment, financing a mortgage, plus the assessment, would have meant a monthly payment of at least \$650. Our rent at that time was \$210. We had all we could do to pay \$210.

The other option we were given was to rent a condominium from an investor. Investors were buying condominiums and then renting them.

We contacted such an investor. He offered us a good buy. Our rent would stay at \$650 for 3 years, and that was considered a real good buy.

That was an opportunity for us, so the investor claimed, that the rent would stay the same for 3 years.

Of course this was no option for us, and so we were forced to move.

So I will tell you some of the really terrible aspects of having to live through condominium conversions.

First of all, pressure starts in all kinds of ways. One of the terrible aspects of condominium conversions is that in fact you have no choice even though real estate agents try to give that impression.

Another pressure is conversion is going on while you are living in the apartment, and we were the last or one of the last two families that moved. That meant that all the other open apartments, transients could come in and live in the building, and it was a constant fire hazard.



Another consequence which is horrible in this process is that it is an utterly inhumane process. Families whose children had grown up together, families whose lives were in a sense intertwined by living together for so many years was unmercifully broken.

Disruption of our personal lives was very hard to take. Another pressure is that you are being called and told repeatedly that your apartment is sold. People were forced to move elsewhere. Friends were dispersed.

Still another horrible consequence of condominium conversion, in our neighborhood, was that as more buildings were being converted the availability of decent apartment rentals decreased, and for the apartments that were available, the rent skyrocketed. And the things that you just take for granted in everyday living, where you shop, where you do your laundry, just all kinds of personal things, the mailman, disruption, disruption is very, very hard to take.

Not to be omitted in this terrible process is also the huge cost involved in moving. We finally, after much effort, and I was literally at this point, anyone whom I only vaguely knew, I was really crying on people's shoulders to help us find a place, but there just were none.

We were finally able to locate three or four vacant apartments. However, and this was characteristic of the neighborhood, the maintenance of the apartments had just about stopped, the buildings were falling apart. And for these apartments the real estate outfits were demanding \$425 a month.

Decent apartments were renting for about \$550, with the threat that these buildings, too, might go condo.

These rents that I am quoting were for two bedrooms and we need two bedrooms because our children visit us frequently, and we had resolved that we would absolutely not accept anything less than what we had been living in for 25 years, and this is a pressure.

Living under the kind of pressure of having to move, with less and less choice, and rents going up, was indeed a traumatic experience for my husband and myself.

The deadline for us to move was just about up. Some friends offered us a spare bedroom and their basement to store 25 years of treasured possessions. There we would be able to continue our search and not be under such a time pressure.

We were saved by what my husband and I regard as a million to one chance. In addition to going to agencies, reading ads, and I was literally crying on everyone's shoulder whom I knew. One of these people was our alderman's secretary.

One morning she called us up and told us just about a possibility in the neighborhood. We ran all the way to the office. She made the call. And we were just lucky enough to get the apartment where we now live. And so we moved a couple of blocks from our previous apartment to 5310 South Dorchester. That is from where we were living to the place that we were forced to move.

Our rent now is \$350 a month. We expect it to go up when our lease is renewed. We have been living here for about 2½ years, and rumors are starting again about condominium conversion, and I can't at this point even face the rumor.

The people in our block didn't take conversion to condominiums lying down. If there were time I could describe in some detail what we did.

I have submitted some of the material that describes the activities of our block.

In terms of legislation, in relation to condo conversion, I would like to see legislation that would guarantee the right of choice for people to be renters at a decent rent. Also a bill that would do something about skyrocketing rent.

Also there ought to be a law against allowing buildings to deteriorate and thereby creating slum conditions, and our experience from the apartment building that we lived in, it was just a business of cosmetics. They really did not do essential repair work. Everything that looked pretty on the surface, but for people generally and senior citizens living on a fixed income like my husband and myself, there is need for rent control, a rollback of rent, or assistance based on a more realistic approach in terms of who can qualify for assistance.

I believe that these hearings today, organized by Congressman Rosenthal, are a sensitive and direct result of the fight that we and others have conducted.

Thank you.

Mr. ROSENTHAL. Thank you very, very much.

Mr. Peyser?

Mr. PEYSER. Thank you, Mr. Chairman.

Mr. Chairman, I, too, want to thank you for putting these hearings together and bringing these people before us. You know I get so upset when I hear of the hardships that we allow to be put on our elderly and deserving citizens when they have so little protection under the law, and have really no capability of standing up to the juggernaut of big money that just rolls over them in these conversion and cooperative procedures.

I would like, and I am hopeful, as a result of these hearings and others that the chairman has called, to be able to come up with something positive.

Now, there are two or three quick questions I want to ask. I know we have all members here and it takes a lot of time, so I am going to direct them individually just to get a feeling of the response.

Ms. Eager, in conversions of co-ops into condominiums it is often said, well, the tax break you get is so important that it is all going to be worthwhile. Do you get a tax break that is meaningful in your situation?

Ms. EAGER. I get a tax break because I now have to pay a property tax because I own my unit.

Mr. PEYSER. In other words, do you get much benefit from the so-called interest that you pay on mortgages.

Ms. EAGER. No, I don't. I had to make a great sacrifice to take a nursing fund to have a place to live permanently, and I would rather be a renter than to get a small deduction for paying a property tax in my condo.

Mr. PEYSER. Thank you.

Mr. Merson, can I ask you a quick question? In New York State we have a law that says that if a person is aged 62 and has an

income of less than \$30,000, and has lived for at least 2 years in the rental apartment, that they cannot be evicted during conversion to a condo or co-op.

If a law such as that existed on a much broader base, say nationally, do you feel this would have a major impact on senior citizens?

Mr. MERSON. Yes, I do. I think it would be most helpful.

Congressman, let me add something to what Ms. Eager has said. You know, I am on total disability. I get \$1,026 a month from the Navy, and \$240 a month from social security. It is nontaxable. Therefore it is utterly meaningless to me to buy, absolutely just simply paying a lot of interest which helps me in no way whatsoever, and I suspect this is the case with a great many older people.

But I think, to answer your question very positively, anything you do in this direction is very helpful.

Mr. PEYSER. Thank you.

I will ask one final question at this time, Ms. Scott, to you. In the conversion or condominium process, were you pressured by the person making this conversion? Did you feel any pressure, and can you specifically illustrate the kind of pressure you received?

Ms. SCOTT. Yes. As I said earlier in my testimony, I was pressured every day by my landlord, every day, telling me that I had to get out. Even on the sidewalk he would meet me and he would tell me I was not looking for an apartment, that I wasn't showing good—you know, I wasn't helping myself or helping him.

Mr. PEYSER. Was this by the person who was buying this operation, or was it the supervisor or superintendent of the building.

Ms. SCOTT. No. The owner of the building.

Mr. PEYSER. The owner?

Ms. SCOTT. Yes.

Mr. PEYSER. The owner himself was doing this?

Ms. SCOTT. Yes. He was stopping me even in the streets telling me I had to get rid of my things, my furniture, and everything, that I would never find an apartment. He knew what he was doing when he bought. He knew he was harming people at that time.

Mr. PEYSER. I thank you.

Mr. Chairman, I thank you for the opportunity and, again, I hope we are going to come out of these hearings with a very positive thing.

I yield back the time.

Ms. SCOTT. Mr. Chairman, could I just add one word, please? If I had not had a lawyer available, a free lawyer, I don't know where I would be now, because my lawyer has helped me immensely, and without her I don't know where I would be, with the tremendous help.

Thank you very much.

Mr. ROSENTHAL. Mr. Daub?

Mr. DAUB. Thank you very much, Mr. Chairman. I want to commend the chairman not only for his interest, but I want to commend each and every one of you for taking time to be here today to share your own personal stories with us as we explore the possibilities for some kind of Federal role in dealing with your problems, if that may be our determination.

Can any of you describe for this subcommittee the sales tactics that confronted you and that gave you at least some mental concern for your own well-being in relation to whether you had an option to stay or to move?

Ms. WILSON. Well, in relation to our experience, our total square block consisted of small apartment buildings with rental units as opposed to high rises, two individually owned apartment buildings, and a co-op.

To the owners of the buildings the condo converters promised private, locked gardens in the rear of their buildings, and told them that the people who were renting apartments were against the upgrading plan. These private locked gardens were to have police security night and day.

To the apartment dwellers, they told us that the private owners were selling or had already sold, which we later found out was not true; that we, the apartment dwellers, were holding back the upgrading and integrating of the block.

Let me tell you that we were really upgraded and integrated. We represented blue and white collar people, and we had a mixture of many cultures and ethnic groups.

This kind of pressure continued so that in my opinion the condo converters came into our block with disruption and deceit.

Mr. DAUB. Are you saying that you were told that people were selling when in fact they weren't selling?

Ms. WILSON. That's right.

Mr. DAUB. How was this done, orally, by phone?

Ms. WILSON. This was by Parker Holzman, who were the agents or the bank that were doing the conversion.

Mr. DAUB. I want to ask a question of each of you, and I am not in any way trying to offend you now, but it is important. We are going to be asking some of the companies later on for their financial information. I am sure you understand that that helps us to decide some things.

What if this committee asked each of you for your financial records so that we could decide in a fair way, too, what the financial disabilities were in terms of rental versus purchase, and the impact on income levels of those people who were in those buildings?

I am not asking for that information now. I am asking whether you see some objective purpose for that kind of a comparison.

Each of you have given your testimony here today. I think it is critical that we find out what dollar impacts are on people who are in a rental situation and then are faced, particularly if they are elderly and on fixed income, with the choice of either a higher rent, if you move, or a tripled cost if you buy, in terms of monthly payment. Would that offend your sense of fairness?

Mr. PEYSER. Would the gentleman yield for a question on that before the panel answers?

I am just wondering, since these people make a certain sacrifice in being here, is it necessary for them to expose their personal income at this point? I think some people have. Incidentally, in the testimony I noticed one person said their income was \$319. I think that is fine, but I would suggest to my friend that we need not ask that, for us to make a judgment. I really, frankly, have a question

in my mind as to whether we should put our witnesses on the spot, and if so would it deter other witnesses ever from coming forward.

Mr. DAUB. If the gentleman will allow me to continue—and I appreciate your concern—that is why I said I was not asking for detailed personal information this morning. Such information would not have to be made public, but could be shared confidentially with staff for the purpose of being able to assess the personal impact of these proposed conversions. That is why these people are here today, because of the wrenching impact on their own situation. I think it would be fair to ask the companies to provide this information as well.

It might be helpful if we had this information for individuals who are in complaining circumstances as well. You see my point?

Ms. WILSON. Yes.

Mr. PEYSER. Thank you.

Mr. DAUB. I have a couple of other questions. Were any of you in the conversion efforts convinced that somebody was there in the corporate structure trying to offer options to those who were elderly?

Do any of you have any experience with options for those say over 65 or those who had lived for more than 2 years in the building, those who were physically disabled in some way?

Mr. MERSON. I think I have already indicated that upon filing application together with a statement from the chief of neurology of the National Naval Medical Center I was in fact offered an extension of 2 years. It was my understanding that some sort of resident committee was to pass on these applications, but the application in itself—and I would be very happy to give you some extract from it—

I agree to submit to the developer documentary evidence concerning age, handicapped residency, and financial inability as it may require in connection with consideration of this application including but not limited to proper evidence of the date of birth, statement by qualified physician of a handicapped person, personal financial statement, copies of Federal income tax returns for at least the past 2 years.

And so forth.

Now, I never submitted any of those things because after having signed this application I thought about it and determined that for me to buy 600 and some shares or certificates for about \$110,000, with monthly payments of somewhere between \$1,300 and \$1,500, to an aging apartment with the estimated maintenance charges open-ended, would be the height of stupidity, and I quickly resolved that I was simply not going to stay there, and particularly in view of the progressive nature of my illness.

Mr. DAUB. Yes.

Mr. MERSON. So these things did exist at the Promenade.

Mr. DAUB. Thank you very much.

I have a question of Ms. Gates. In the materials you submitted to the committee on October 10, 1980, formal notice was submitted, and in it it said in point 5 that you will be able to remain in the building as a tenant though not necessarily in your present unit.

Even if you do not buy your unit, there are three conditions: residents of one year or more and over 65; B, a member of the Juneau Club; or C, a handicapped person who has been a resident for a year or more.



How did those three provisions actually affect the total number of residents in your building? Were there many in those categories or not?

Ms. GATES. Yes, a significant number.

Mr. DAUB. Most, would you say, in those categories?

Ms. GATES. I wouldn't say most, because we do have a wide range of ages in our building, and at points in life, but we are not certain, and we have been told by lawyers that this is not legally binding, these various communications that we have received.

As I testified, the one gentleman on the sixth floor who works every day as a stockboy, is mentally retarded, he was given the 30-day eviction notice for September 2 and moved around the corner to a building owned by the same person, and 2 months after he moved was hit with another letter that the owner intends to convert that building.

Mr. DAUB. Do you know the status of the lawsuit in your particular case?

Ms. GATES. You know, we don't know.

Mr. DAUB. Thank you.

I have no more questions, Mr. Chairman.

Ms. GATES. If I may add something. As far as your inquiry on financial situations, I would like to share with you that I was most pleased to be invited to come here to testify and I felt that your committee perhaps is not in touch with reality.

Your offer for reimbursement is most fair, but there are some of us who have circumstances where our lives have changed dreadfully and reimbursement would not do me one bit of good.

I am here because Congressman Reuss' assistant in Milwaukee, Mike Brady, was good enough to use his personal funds for my air fare and the handout for food, and then he is going to accept the reimbursement.

It saddens me terribly to say this, but those are the circumstances.

Mr. ROSENTHAL. Mr. Atkinson?

Mr. ATKINSON. Thank you, Mr. Chairman.

Just a question maybe for a show of hands. How many of you were able to find housing within the neighborhood?

Ms. SCOTT. No, I have not been able to find as yet. Here is what I wanted to tell you, too, if I may. We have an ordinance in Boston that gives 2 years to the elderly and handicapped. It does not help, because the landlords harass people and get rid of them that way, especially to tenants who have no lawyers.

We have also the anguish of moving, having to move in 2 years, knowing no one will find anything in just that time. It just is terrible.

Mr. ATKINSON. How many of you then still live within a few blocks or the general area of your former residence if it is turned into a condo?

Ms. SCOTT. I am still living in my home.

Mr. ATKINSON. You are still living there?

Ms. SCOTT. Yes.

Mr. ATKINSON. The point I guess I was trying to make, if you know the neighborhood, and I was just curious, if you stayed

within the neighborhood, how much the rate impact would have been as far as the rent is concerned in where you moved to.

I think you, Mrs. Wilson, stated it went from \$210 to \$300. Is that your testimony?

Ms. WILSON. Yes.

Mr. ATKINSON. May I ask you another question, Mrs. Wilson?

Ms. WILSON. Certainly.

Mr. ATKINSON. You said that the new owner offered you a lease on a rental basis that would go from \$210 to \$650 a month?

Ms. WILSON. Yes. When the condo conversion business started investors came in along with them and investors were buying apartments to rent, and at the time when we lived in the building they offered us a magnificent lease for 3 years at \$650 per month, and that was supposed to be the plum.

Mr. ATKINSON. That is one point I wanted to make. Initially your first contact then was by the new owners who said that you could stay for another 3 years but the rent would be \$650? The question is, If that is the case what additional benefits or improvements would have been made, if any?

Ms. WILSON. Well, what is there even to think about when you don't have the money?

Mr. ATKINSON. The point I want to make is we are trying to get to the point where with condos a certain percentage of the rooms, the building, should be owner-occupied and a certain percentage to investment. It is limited in that way.

My point is if you were offered it by the owner and you refused it, then somebody recommended another investor to come to you—is that the case?

Did I understand you to say that? I am just curious as to who would recommend to you to have another investor contact you for the purchase.

Ms. WILSON. This is sort of a free floating thing. You know that you are dealing with the company who rents to you. Behind that company is the bank. And then these things kind of fill the air.

I don't know if I am answering you directly. It was, I imagine, Parker Holzman to whom we were paying rent, and Parker Holzman at the same time who was selling apartments for conversion; they would tell the converters whom to go to.

Am I answering your question?

Mr. ATKINSON. Yes, you are. That is the whole point I want to make. Working in concert with the new owner of the condo.

Ms. WILSON. Yes.

Mr. ATKINSON. And with those who they now recommend to somebody such as yourself who is not buying in, and therefore they can purchase it, make an investment of it, with the assumption of running it back to you. That is my whole point in questioning.

Ms. WILSON. Right.

Mr. ATKINSON. I am just wondering whether they were working in concert between the new owner and the relation that they may have made to some other investor to come in.

Ms. WILSON. Right. The people from whom you are renting and the investors are working together just putting people out in the street.

Mr. ATKINSON. Thank you.

I know the time is short, Mr. Chairman.

Ms. GRAHAM. I want to say that I moved across the street from where I formerly lived, and I pay more money now than I did when I lived across. I was paying at the old address \$247. Now I am paying \$331.

Mr. ATKINSON. You are in the same neighborhood, you are saying?

Ms. GRAHAM. The same neighborhood, the same neighborhood. That is just across the street. I found it myself.

Mr. ROSENTHAL. Mr. Clinger?

Mr. CLINGER. Thank you, Mr. Chairman.

I, too, want to thank the panel of witnesses for coming to give their testimony today. It has been very helpful, I think, to the subcommittee. Just a couple of quick questions.

I think, Ms. Gates, you testified, or there were included in the materials submitted to us some letters from management, or the converter, indicating there were conditions under which the tenants would be able to stay.

Were these conditions a result of city law, or State law, or were these conditions voluntarily offered by the converter?

Ms. GATES. No. I think that that came out of the meeting that we had in the lobby with the owner, where verbally he made lots of promises. In fact, if he were to put all of his promises of that evening in writing, none of us would be in any jeopardy.

Congressman Reuss was with us that evening, as many members of the clergy were, and I believe that the statement of the three categories came out of that meeting.

We have not been successful in getting any help from city hall or the State. They continue to bounce us back and forth.

Mr. CLINGER. So there is no law controlling condominium conversions within your State?

Ms. GATES. There is one pending in the State legislature, which some of the senators believe will help us. Some of them say that it will not help us. One gets the distinct feeling that ours is a most unpopular cause, that the name of the game is profit, and as the saying goes, big bucks fast.

Mr. CLINGER. He did put these particular conditions in writing? I am wondering whether they have reneged on those?

Ms. GATES. I would like to believe that it is true, that the people who are a part of Juneau Club will be permitted to stay.

Mr. CLINGER. Indefinitely?

Ms. GATES. They are at the age and health condition that I think through attrition and their final, final move, that that will be phased out.

I would like to believe that it is true, that this will. There are many other elderly people who are not a member of the Juneau Club. They take their meals in the coffee shop or they are still able to cook a little for themselves, have meals on wheels, and as far as the handicapped, I mentioned Ed Zeiss who had his foot amputated recently, I am sure he is not going to be willing to stand up and say "Hey, I am handicapped, I am in category 3." This is humiliating. And we have had no real assurances.

The first statement was that everyone who was a permanent resident might stay. Then the next letter, if you notice, says if you



are an elderly permanent resident you may stay, and for a period of about 6 months we were bombarded with communications that left us with no real knowledge.

Some people, it has been indicated to them that you may stay until your unit is sold, then you have 30 days, and that while they are doing the restoring that you will be moved to another.

Even for someone younger, if you have health problems, being on the move is quite stressful.

Mr. CLINGER. Let me just ask one other question. You indicated also that there were some promises made at the time some of the lease agreements were entered into, which led you or others to believe that this would be a permanent condition; in other words, that you would be able to remain there, that the apartment would not be converted.

Were those promises verbal or written, and on what basis did you conclude, or others conclude, that this situation would not change?

Ms. GATES. From the meeting in the lobby, and then I had a one-on-one meeting with the owner, and those of us who did come away with the feeling that we really had not been told much, that we had been sort of soothed, and I would like to believe that the promises will be kept, but we really have no reason to believe, inasmuch as the clergy have been totally unsuccessful in receiving any written reassurances.

Mr. CLINGER. What I was referring to was at the time you entered into the lease, in other words became a renter in this development, I think you suggested that there was some commitment made by the owner that the apartment would not be converted?

Ms. GATES. No. I wouldn't be familiar with what you are referring to.

To my knowledge there has been none. We hope that he will realize he made an error in judgment because our building does not lend itself to conversion even for the buyer.

Mr. CLINGER. But there were no commitments made at the time that the lease was entered into?

Ms. GATES. No.

Mr. CLINGER. Thank you very much.

Mr. ROSENTHAL. Mr. Hiler?

Mr. HILER. Thank you, Mr. Chairman.

Have any of you ever owned a home?

[There was a showing of hands.]

Mr. HILER. Mrs. Eager, when did you sell it?

Ms. EAGER. I sold it in a seller's market—I mean in a buyer's market. Anyway, I took a loss. I sold it in 1959 after my husband died. I moved to the first apartment I described in my testimony.

Mr. HILER. Mr. Merson?

Mr. MERSON. I sold my home in January 1980.

Mr. HILER. Did you take a loss on it as well?

Mr. MERSON. No. I think I just about broke even.

Mr. HILER. Who else?

Ms. SCOTT. No.

Mr. BYRNES. I sold mine back about 1940, I believe, and from that time on, why, I have traveled too much.

Mr. HILER. So you have rented from 1940 on?

Mr. BYRNES. From 1940 on.

Ms. GATES. I have owned homes several times starting at age 20, and at that time I lived in Nebraska. I was teaching school and in a small community you could vote obviously at age 21 in the national elections but you could not vote in local elections unless you were a freeholder, and thus at age 21 or age 20 I bought—we called it a house. And most recently, it was 1972.

Mr. HILER. Mrs. Wilson, I lived at 5546 South Hyde Park Boulevard, so I only live about six blocks from you. Nice to see you here from Hyde Park.

Thank you, Mr. Chairman.

Mr. ROSENTHAL. Thank you all very, very much.

We are enormously grateful for your appearance, and I want you to know that we have great respect and affection for all of you. Thank you for coming.

You are excused from the table because we have to use it for our next panel.

Our next panel of witnesses, Mr. Richard Friedman, president of Promenade Tenants Association, and he will be introduced by our distinguished colleague Congressman Barnes; Mr. Allan Beckman, attorney, Beaver Hill Tenants Association, accompanied by our equally distinguished colleague from Pennsylvania, Mr. William Gray.

I apologize to both our colleagues and the witnesses for this delay, but this is the inevitable turn of the wheel of fortune.

Mr. Friedman and Congressman Barnes will go first only because they are listed that way on the schedule of witnesses.

Also I want to bring to the attention of the members that tomorrow morning another distinguished colleague, Congressman James Jeffords, who apparently has some personal involvement in this business, will testify at 11:30 a.m.

Congressman Barnes?

#### STATEMENT OF HON MICHAEL D. BARNES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. BARNES. Mr. Chairman, thank you very much for the opportunity to be here this morning. I am here, as you indicated, to introduce the subcommittee's next witness, Mr. Richard Friedman, who is chairman of the Promenade Tenants Association.

I want to take just a moment to thank you also, Mr. Chairman, for devoting the time and resources of this subcommittee to the issue of condominium and cooperative conversions.

In the Washington area we have had 48,000 rental units converted over the past decade. In the community that I represent, in Montgomery County alone, we have experienced 11,000 conversions in the last 8 years. So this problem has hit Montgomery County and the entire Washington area particularly hard.

Therefore the citizens of this area are especially grateful to you for the attention which this subcommittee has given to this troubling problem and for your leadership on this issue.

Some observers would contend that since certain geographical areas are particularly hard hit by condominium conversions, like the Washington area, while others are not, that therefore it should

be treated as a "local" problem. And surely there are some important steps that local governments can take to fine-tune local housing markets and to provide protection to tenants.

But I believe that the chief responsibility for addressing the condominium conversion problem and the severe difficulties being experienced by the rental housing market—difficulties which are national in scope—lies squarely with the Federal Government.

Among other steps which Congress might take, it is my view that one place we should focus is on present U.S. tax policies.

The tax code is clearly helping to fuel the condo conversion trend around the country and, at the same time, the same tax code is acting as a strong disincentive toward investment in construction of new rental housing units.

So tenants are not only being displaced in larger and larger numbers—they are also discovering that there are fewer available apartments to rent, at prices which are becoming increasingly difficult to afford.

I believe that a restructuring of certain provisions of our tax code will infuse some much-needed health into our sagging rental housing market, to ease one dimension of this multifaceted problem.

Finally, Mr. Chairman, I would like to add a personal perspective and that is to say that of all the different types of calls and letters that I receive in my congressional office—as we all receive calls from our constituents—the ones from tenants being displaced by conversions, especially from the elderly citizens like the ones you have just heard from, and other groups who are so dramatically affected by this phenomenon, stand out in several respects.

The anger, and frustration, and anguish—and sometimes, as we have just heard from citizens who have been through it, despair—of these citizens is painfully evident.

So many of them speak of their shock that in this country such a circumstance could befall them. They feel that they are caught up in circumstances beyond their control, and they feel unable to shape their own destiny.

So I thank you again, Mr. Chairman, for calling these hearings to shed some light on this problem and hopefully to identify some possible solutions.

With that, I would like to introduce Mr. Richard Friedman, chairman of the Promenade Tenants Association. Mr. Friedman and the tenants of the Promenade have been on the front line of this battle for some time now, as you know, Mr. Chairman, and I know that the perspective of this tenants' association will be particularly valuable to the work of this subcommittee as it considers the problem of condominium and cooperative conversions.

I want to apologize, Mr. Chairman, to you and to Mr. Friedman. I have to leave to be on the floor when the House goes into session in 4 minutes to participate in a dialog on another matter.

MR. ROSENTHAL. Thank you very, very much, Mr. Barnes.

The committee also wants to acknowledge the significant role that you have played in the forefront of our bringing to the attention of the committee and the Congress the enormous depth of the problem of condominium conversion.

Mr. Friedman, why don't you sit down and suspend for a moment. We want to hear from our distinguished colleague Mr. Gray.

And Henry Reuss, the father of everything that is important, is here. Did you want to say something, Henry?

Mr. REUSS. Just "right on." Strengthen your armor.

Mr. ROSENTHAL. I hope the reporter got that.  
Congressman Gray?

**STATEMENT OF HON. WILLIAM H. GRAY III, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. GRAY. Mr. Chairman, it is an honor for me to introduce to the subcommittee a person who more than anyone else in the greater Philadelphia area and indeed the Commonwealth of Pennsylvania has developed an expertise on the ramifications of rapid condominium conversions.

Allan J. Beckman is a prominent Philadelphia attorney and he has been in the forefront of the condominium issue in Philadelphia. He has given unselfishly of his time to assist numerous tenant groups facing the trauma of condominium conversion.

I might add that more than 2 years ago Mr. Beckman warned of the problems which he said would be associated with uncontrolled condo conversion. Sadly, his predictions have come true.

I appreciate the fact that your subcommittee is taking the time to solicit Mr. Beckman's testimony, Mr. Chairman, because in the Philadelphia area we have seen more than 30 buildings become the target of condo conversion. Thousands of tenants have been affected.

Unfortunately, the State and local governments have not moved to resolve the problems of sweeping condo conversion, making Federal legislation necessary.

I want to applaud you, Mr. Chairman, and this committee, for examining this most pressing issue, and, as a cosponsor of your legislation, H.R. 5175, Mr. Chairman, I look forward to working with your subcommittee to mold a fair and equitable legislative approach to this problem.

Mr. Beckman is committed to that same goal, and I know that you will find his testimony helpful to this end.

Thank you, Mr. Chairman and members of the committee.

Mr. ROSENTHAL. Thank you very, very much. I, too, want to commend you for bringing to the attention of the committee the concerns of the citizens of your congressional district in Philadelphia. For that we are very grateful.

Mr. Friedman?

**STATEMENT OF RICHARD FRIEDMAN, PRESIDENT, PROMENADE TENANTS ASSOCIATION, BETHESDA, MD.**

Mr. FRIEDMAN. Mr. Chairman and members of the committee, I am the chairman of the Promenade Tenants Association and I welcome the opportunity to tell this committee how it feels to be a tenant in a building that is being converted to a cooperative by the giant Invsco.

It is a special honor to be introduced to this committee by Representative Michael Barnes, my Congressman. It is fitting that he

should be here today because he was a participant in an event that indicates both his compassion for his constituents and the nature of the animal that is converting our rental homes into a cooperative housing venture.

Last fall one of our tenants applied for an extension of their lease on the grounds of extreme hardship—the hardship being that her husband has developed a malignant tumor and his illness was diagnosed as terminal.

Knowing her husband had only months to live, the tenant pleaded for a lease. She was brutally turned down by Invsco's assistant director of consumer relations.

There can be no more humiliating experience in a period of great emotional stress than to face arrogant and unfeeling conduct by someone who has in their power an easy solution to your problem.

I am sure that Congressman Barnes remembers the repeated phone calls made by a member of his staff on behalf of this tenant, and it is through his efforts that the extension was finally granted.

All of the tenants in our organization want to thank Congressman Barnes, and also to thank him for his efforts on behalf of all of the tenants of the Promenade.

To understand fully what has transpired over the last 8 months, it is important to know what it was like at the Promenade before the conversion occurred.

This fine rental community is located off Wisconsin Ave., in Bethesda, part way up Pooks Hill, just inside the beltway.

The Promenade consists of two 18-story towers connected by a two-level arcade. The street level arcade is a plush lobby with massive crystal chandeliers. The lower level contains shops and professional offices.

The majority of the 1,072 residential units contained in the two towers are made up of one-bedroom apartments, many as small as 600 square feet, and others slightly larger.

Prior to July 1980 the residents of the Promenade were a friendly, warm, and compatible group. The building contained young singles starting on a career, young professionals, married couples, working people, business people, and elderly and handicapped persons.

The income of these tenants ranged from modest to high, with the bulk in the lower middle income category. There were many tenants retired and living on pensions and social security.

There were widows living on fixed incomes and there were a few high income, well-to-do people, and all mixed well in an extremely cordial atmosphere.

Suddenly on or about July 1, the news broke that the building had changed hands. The calm and serene living was soon gone. In its place was shock, suspicion, confusion and, most of all, an underlying fear of being forced out. All were faced with the threat: "Buy or move."

A hastily formed tenants' association learned to their dismay that although there was legislation which protected tenants of buildings converted to condominiums, neither Montgomery County nor the State of Maryland had ever seen fit to add the word "cooperative" to such legislation, a loophole which Invsco used to its advantage.



The first glimpse of the tactics of the converter was the first notice of the purchase price of the tenants' apartments.

The offer listed the number of shares, a purchase price, and an indication that this was the price quoted for "outsiders" or nonresidents, and that there were "resident" discounts available.

Tenants were urged to visit the sales office to learn of the generous discounts.

There were indeed resident discounts available, but there was also an underlying mortgage, and each purchaser was to assume his proportionate share.

To this day prices advertised to the public in the newspapers do not include the underlying mortgage. The Invsco people do not mention it. Prospective buyers are told only that there are fixed charges to pay.

The original notice concerning my own particular apartment seemed to be shares being offered at a gross price of \$81,000. It became \$104,000 because of the underlying mortgage.

Prior to the advent of Invsco I had been paying \$456 per month. Had I purchased, my monthly payments would be approximately \$1,200 per month—almost three times my prior rent.

This sudden increase in cost to a tenant is a reflection of the basic problem with conversions. What makes a real estate property worth \$30 million to my original landlord, \$50 million to Invsco when they purchase it, and \$100 million when he sells it off in shares to prospective residents?

From the very start, the pressure was on. If we wanted to take advantage of the resident discount we had to act within a strict timetable. Each delay in decisionmaking would cause a reduction in the amount of discount available.

One of the big jokes was the availability of a special 2-percent discount for signing within 10 days, and a special 3-percent discount for paying cash. It took the capable and knowledgeable converter 12 months to complete its purchase; tenants were given 10 days.

Between July 1980 and January 1981 over 300 apartments were vacated. Tenants left to seek other homes. The atmosphere changed.

People who were once friendly now barely talked. There was a division into two camps: the purchasers and the renters.

Neighbors had forgotten to smile at one another—they weren't sure whose side you were on. Those who had bought felt injured by the tenants who continued to pay rent at the rate of one-third the cost of the same or similar apartment that had been purchased. Those who rent felt betrayed by those who purchased, rather than standing fast against this uninvited giant who has caused more havoc with money and paper than a terrorist could have caused with a gun.

Folks hesitated to purchase because of the risks inherent in buying shares in a cooperative venture where the right of occupancy was being sold on an as is basis.

The risk was not only attributable to possible failure of personal kitchen appliances, but also to the central air-conditioning and heating system, hot water system, and boilers, and to overworked elevators.

The converter boasted that he was selling a used building as is with no warranty and with no provision for reserve funds for major repairs.

During the summer months, as each deadline came and went, fear mounted and residents scurried throughout the community looking for places to rent or buy.

The few existing rental units were quickly gobbled up; condominiums under construction and recently completed were purchased, and the wave of 1,000 tenants seeking a place to live where housing was already scarce created dramatic inflationary pressure.

For example, at Georgetown Village in Bethesda, a new condo development where many of our neighbors sought refuge, the price of a two-bedroom apartment jumped \$8,000 in one week; a three-bedroom \$14,000.

In August picketing by the tenants' association commenced and simultaneously the developer started the voluntary assistance program.

The program was designed to lease 10 percent of the apartments to elderly and handicapped tenants for a period of 2 years. This program was to be administered by Invsco's office of consumer affairs through a committee of purchasers.

Applicants were required to show that they were unable financially to purchase. Ostensibly the decision was to be made by the committee of purchasers. At the time the decisions were made, however, the committee was nonexistent. Decisions were made by Ms. Anne Solator and David Kaplan.

I can think of no more dehumanizing, humiliating requirement than being compelled to beg for assistance and to be forced to reveal the most intimate details of one's financial situation in order to remain in one's home.

There were those who applied who had to reveal not only lack of finances, but a condition of health that warranted their being considered handicapped. The story that I related concerning the tenant with the husband dying of cancer was repeated in an instance of a man who required heart surgery.

Moreover, while some were requesting this special benefit and were picketing also on weekends they were brusquely asked, "If you want our help, why are you picketing?"

Tenants were called and told that their apartments were about to be sold. Others were called by salesmen who assured them that theirs was the last apartment of their type left and that they should purchase immediately if they wanted to continue living there. The largest number of sales have been made to purchasers of the smallest and least expensive apartments, primarily occupied by persons of single status.

Some of these occupants have been given notices to quit and vacate. Even this function cannot be accomplished by the developer in a decent manner. The notices have been served by uniformed security guards, some knocking on apartment doors as late as 10:30 in the evening.

The officers and directors of the Promenade Tenants Association have become more vocal, active, and critical of the conduct of the developer.

In recent weeks the leaders have been singled out for notices to vacate. For example, one of our leaders, a tenant in one of four penthouse apartments, was one of the organizers of the tenants association. She hosted the first committee meeting in her penthouse apartment in early July. She remained active and vocal in her criticism of the hard sell tactics of Invsco.

She received a notice to vacate in January, the developer claiming her apartment had been sold. Indications that she was being singled out as a person whom the developer wished to get rid of are supported by the following:

First, although the shares to her apartment call for a total price in excess of \$250,000, neither an appraiser nor a prospective purchaser had visited her apartment.

Second, of the four penthouse apartments, one was vacant at the time of the alleged sale and continues to be vacant.

Third, the notice to vacate followed almost immediately upon several pressure sales tactics which brought no response from this tenant.

Another charter member of the tenants' association and an active board member also received a notice to vacate, and his apartment was neither visited by a prospective purchaser nor by an appraiser.

I, too, have received my notice to vacate. I have been a visible, outspoken critic of the sales tactics, the basic costs and risks inherent in purchasing this cooperative.

I have orchestrated many of the tenants' activities: picketing, distribution of newsletters, calls to the press and media, and have even suggested that a high official of Invsco should not be a principal speaker at a meeting of professionals. The telegram of protest and the notice to vacate are dated the same day.

One of the most despicable results of Invsco's sales campaign has been the sale of shares of stock giving right of occupancy to investors.

Many of our members have been approached by real estate salesmen and agents who have told them that their apartments have been sold and that they can rent from the new owner at an increased rent and receive a 1-year lease.

The Sunday Washington Post up until this past Sunday lists four or five apartments every Sunday for rent at the Promenade at prices far above the normal and usual rental of apartments in our building.

We have confirmed at least nine actual renters or investors who have offered for rent apartments in our building. Each week brings the names of new investors as new ads appear in the Sunday papers.

Recently, one of the officers of our association was informed that her apartment had been sold, although her lease does not expire until July 1982.

The alleged purchasers are residents of Alexandria, Va., with business which requires personal attention in Alexandria.

This apartment—restricted to single occupancy—has been purchased by a married couple. The chance of future occupancy by them is extremely unlikely.

Those members of our association who have had contact with real estate offices have confirmed that close to half of the contracts



for purchase of shares of stock were placed by investors whose only motive was profit, not residency.

Home Marketing of America, the sales arm of Invsco, openly solicited the residents of Grosvenor Park Apartments. This 900-unit condominium was converted by Invsco in 1979.

Using the list of names and apartment numbers of those residents who had previously purchased, Home Marketing of America solicited them for sales of shares of stock in the Promenade Apartments. The solicitation was clearly for profit.

They suggested the substantial equity in their homes at Grosvenor Park Apartments would enable them to take advantage of a "ground floor opportunity" to purchase at the Promenade with resident discounts and below market financing.

This blatant evidence of greed which fuels the fires of inflation incensed the board of directors of the Promenade Tenants Association. We have sought relief by filing a complaint with the Office of Consumer Affairs of the SEC suggesting to them that under the guise of cooperative real estate sales, Invsco was in fact selling investment contracts upon the inducement of great profit and financial return.

This is not the first time that the chairman or president of a tenants' association has come to Congress to protest the activities of American Invsco.

On June 29, 1979, Anne Solator, then the president of the Grosvenor Park Tenants Association, presented a moving indictment of the tactics of her present employer, American Invsco.

Ms. Solator has fallen into the same pattern of intimidation and arrogance which caused her employer, when threatened with contempt, to insult the very foundation of our Government by printing full page ads which said, "The People Have Spoken," and implying that the Congress should listen to him in place of following their own duty and activity.

In 1979 Ms. Solator indicted Invsco with the statement: "We are angry. Tenants are very much a pawn in this big money game. Our homes are being peddled like encyclopedias."

In the course of our battle with Invsco we have found that they follow the same tactics in every conversion: They make superficial cosmetic changes in the building, set arbitrary deadlines for purchases, throw parties, deliver baskets of fruit—and behind this facade is an iron fist ready to strike fear, create chaos, and generally disrupt the lifestyle of the tenants in the buildings they seek to convert.

American Invsco boasts that they are followed by hordes of investors. An investigative reporter in Florida recently reported on the insider and "family" deals which have the effect of artificially raising the price while not increasing the value of the property converted.

Contrary to popular belief, as you have heard today, the great American dream is not to be forced to own something, but to have the freedom of choice to select the manner in which one wants to live.

Our forefathers guaranteed us the pursuit of happiness and never once mentioned the pursuit of money. Other than food, I can think of no greater necessity of life than this item of housing.

Truly, the tremendous inflationary pressures of buying for \$50 million and selling for \$100 million, without creating anything, should be stopped.

Our Federal Government now seems to be embarked upon a crusade to stop the growth of inflation. Nowhere in our economy is inflation more visible than in the evils of real estate conversion.

Gentlemen, I trust this picture of a peaceful rental community shattered by the explosive greed of an unconscionable converter who thinks more in terms of property rights and profit than he does in the terms of human rights and basic human needs, will lead you to find legislation which will stem the tide of real estate conversion in this country.

Thank you.

Mr. ROSENTHAL. Thank you very much.

[Exhibits to Mr. Friedman's prepared statement follow:]

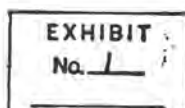
EXHIBITS

BEFORE THE  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
of the  
COMMITTEE ON GOVERNMENT OPERATIONS  
U. S. HOUSE OF REPRESENTATIVES

on  
MARCH 30, 1981

by  
RICHARD L. FRIEDMAN  
Chairman

PROMENADE TENANTS ASSOCIATION, INC.  
5225 Pooks Hill Road #701-S  
Bethesda MD 20014



October 13rd, 1980

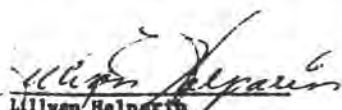
To: The Management of the Promenade

On September 29th, 1980, my husband had emergency surgery for the removal of a ltrinsic tumor located on the right side of the brain. This tumor was diagnosed as malignant with the prognosis of survival from six months to a year.

Due to the unexpected tragic events that has occurred, it is impossible for me to vacate our apartment on or before January 31st, 1981.

I approached your Miss Solotar with my problem last week and she informed me that I would have to vacate my apartment - no exceptions - and why didn't I ask for assistance in July. Since her reply was so very stupid, as well as tactless and insensitive, this letter becomes necessary.

I can assure you that I have no desire to remain under your management for an extended period of time. However, due to the above circumstances, I cannot and will not be pressured for a vacancy date. I will sign a lease if necessary.

  
Lilyan Halperin  
Apartment 411 North

**MICHAEL D. BARNES**  
 8TH DISTRICT, MARYLAND  
 CONGRESSIONAL OFFICE  
 1001 LANSING STREET, SUITE 200  
 WASHINGTON, D.C. 20013  
 (202) 225-0311

CONGRESSIONAL OFFICE  
 2000 BROAD AVENUE  
 SUITE 2100  
 BETHESDA, MARYLAND 20814  
 (301) 950-0300  
 SPECIAL PHONE FOR THE  
 HEARINGS DIVISION  
 777-554-0300  
 777-554-0300



**Congress of the United States**  
**House of Representatives**  
 Washington, D.C. 20515

November 18, 1980

EXHIBIT  
 1A

COMMITTEE ON FOREIGN AFFAIRS  
 SUBCOMMITTEE  
 EUROPE AND THE MIDDLE EAST  
 INTERNATIONAL ECONOMIC  
 POLICY AND TRADE  
 COMMITTEE ON THE JUDICIARY  
 SUBCOMMITTEE  
 IMMIGRATION, REFUGEES AND  
 INTERNATIONAL LAW  
 ADMINISTRATIVE LAW AND  
 GOVERNMENTAL RELATIONS  
 COMMITTEE ON THE DISTRICT  
 OF COLUMBIA  
 SUBCOMMITTEE  
 AIRPORT, MASSPORT  
 AND EDUCATION

Mrs. Lillian Halparin  
 5225 Fooks Hill Road, #411N  
 Bethesda, Maryland 20014

Dear Mrs. Halparin:

Recently my office was contacted by a P.T.A. board member to seek my assistance in obtaining an extension of your tenancy at the Promenade due to your husband's illness.

Carolyn Neal of my staff subsequently contacted Ms. Ann Solotar of American Invesco several times to express my concerns about your situation.

According to this board member, you have been granted an extension, and hopefully, you can feel more at ease about your housing situation in your time of great distress.

I hope that my efforts on your behalf were helpful. If you should ever need assistance again, on this or any other matter, please feel free to contact me.

Sincerely,

*Michael D. Barnes*  
 Michael D. Barnes

MDB/cmm

EXHIBIT No. <u>1B</u>
--------------------------

25 March 1981

My husband and I moved into The Promenade in July, 1975 with plans to remain there until our retirement and possibly longer.

Last year when the building was sold as a cooperative, my husband and I were forced to make a decision of whether to move into another apartment or purchase. We would never invest in a cooperative, and therefore, purchased a townhouse. We were to move on November 1st.

In September, my husband was suffering from headaches and after many tests and X-rays, a brain tumor was detected. He was operated on September 30th, 1980. The tumor was malignant with the prognosis of six months to a year to live.

On October 23rd, 1980, I decided to visit the Consumer Relations Office at the Promenade, to advise them of the tragic illness of my husband, that I cancelled the purchase of our townhouse, and also, that under the circumstances I could not consider vacating my apartment in January, 1981.

Ms. Solatar was in the office making coffee. When I told her what had happened to my husband, her reply was "We make no exceptions. You will have to vacate your apartment." I asked her if she realized that I was telling her my husband was dying, and her reply was "We make no exceptions. You should have asked for assistance in July when we had our assistance program for the disabled. You will have to move." I tried to explain that my husband had no symptoms of an illness in July. She turned her back to me and went into the other room.

Needless to say, I left the office sobbing. I then wrote a letter to the Tenant's Association at the Promenade, and through them and the efforts and sympathetic compassion of Congressman Michael Barnes I was able to remain at The Promenade with the grant of a year's lease.

The cold, tactless, brutal and yes, stupidity of Ms. Solatar will long be remembered by many people. This person certainly should not be representing a so-called Consumer Relations Office.

My husband never had the opportunity to return to our apartment. He recently passed away.

*Lillian Halperin*  
 Lillian Halperin  
 5275 Pooks Hill Road  
 Apt 411 North  
 Bethesda, Maryland 20014



## THE PROMENADE

5225 Pooks Hill Road • Bethesda, Maryland 20014 • (301) 530-7200

July 2, 1980

Dear Resident,

This letter is to inform you that The Promenade is now owned by Promenade Towers Mutual Housing Corporation. This took place and became effective June 23, 1980.

During these past six years, those of us associated with The Promenade have all worked hard to provide the highest standards of quality service to make The Promenade a most pleasant place for you to reside at one of our area's most prestigious addresses. I am confident the new ownership will strive to maintain these high standards of management which we feel we have achieved over the past years.

Management of The Promenade will continue to be provided by most of the same competent and experienced personnel associated with the management these past years. Landow & Co. will supervise The Promenade staff for a period of time to insure a smooth transition to your new management agent, The Willowick Company, Inc., of Washington, D.C. The Willowick Company is an affiliate of the American Invaco group, a nationally recognized real estate services company.

All leases and security deposits have been transferred and will be administered by the management company. Existing leases and occupancy rights will be honored and you can expect the utmost consideration and courtesy as Residents of The Promenade.

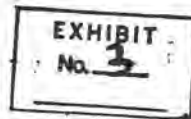
In the near future, you will receive an introductory letter from the new ownership informing you of their plans for the future.

It has been my pleasure over these past six years to have served you as the owner and managing agent of The Promenade. I hope you have enjoyed your residency and will continue to do so for many years to come.

Sincerely,  
  
 Nathan Landow

NL:cm

LANDOW & CO.  
 Management

*The Promenade*

July 10, 1980

Dear Resident,

In the past few days Mr. David Kaplan and his associate, Ms. Anne Solotar, have met with many residents of The Promenade. Many inquiries have been made of our representatives, but it seems that the paramount question concerns the purchase prices of the apartments in the co-operative.

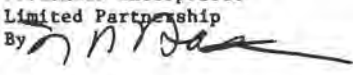
We had planned to present the introductory price schedule when all the information was available for distribution. However, due to the concern which you have expressed, we are enclosing with this letter information regarding the non-resident price of your apartment.

Please note, the price as shown reflects neither the very substantial benefits and allowances you will receive as a resident nor the monthly costs. We feel it is important for you to have all the information in order to make a purchasing decision. A Property Report will be available for distribution in the near future which will contain information such as the legal documents of the housing corporation, the special assistance program for certain elderly or handicapped persons, and other relevant facts.

Some residents have expressed the desire to enter into a Purchase Agreement as soon as possible due to vacation schedules and other considerations. We will be pleased to accommodate these residents. Any Purchase Agreement entered into before the Property Report is available will be subject to a rescission period after receipt of the Property Report.

If you would like to learn the extent of the special resident benefits and allowances, representatives will be available in the Party Room, Arcade Level, from 9:00 A.M. to 6:00 P.M. each day beginning Saturday, July 12, 1980.

For those residents who have already decided on the concept of co-operative ownership and would like the opportunity to join in becoming the First Charter Shareholders of the Promenade Towers Mutual Housing Corporation there will be an additional 2% allowance for those who sign a Purchase Agreement prior to July 19, 1980.

Sincerely Yours,  
Promenade Enterprises  
Limited Partnership  
By 

Authorized Agent



100

EXHIBIT  
No. 3A

APARTMENT # 701 S

NUMBER OF SHARES ALLOCATED

594

NON-RESIDENT PRICE OF APARTMENT

81,378

This Price includes the use of one inside parking space.

PLEASE NOTE: The price as shown reflects neither resident benefits and allowances, monthly costs, nor other important information necessary to make a purchasing decision.



4-003967S048002 02/17/81 ICS IPMTZZ CSP RVDD  
1 3017777777 MGM IDMT SILVER SPRING MD 02-17 0844A EST

EXHIBIT  
No. 4

TV RENTAL CORP MRS LIFF  
1201 FIDLER LN  
SILVER SPRING MD 20910

#21-10

THIS MAILGRAM IS A CONFIRMATION COPY OF THE FOLLOWING MESSAGE:

3017777777 IDMT SILVER SPRING MD 45 02-17 0844A EST  
PMS HARVEY R LAMPSHIRE EXECUTIVE DIRECTOR ERNEST H DAVENPORT  
PRESIDENT RPT DLY MGM, DLR  
DC INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANT 1707 L ST NORTHWEST SUITE  
990  
WASHINGTON DC 20036

YOUR CHOICE OF SPEAKER TONIGHT, NICHOLAS GOULETAS, IS AN INSULT TO  
ALL TENANTS AND IMPACT, TO THE ENTIRE REAL ESTATE INDUSTRY. WE  
BELIEVE THAT AMERICAN INVESCO HAS CREATED MORE INFLATION AND MORE  
HARDSHIP FOR THE ELDERLY AND HANDICAPPED THAN ANY OTHER DEVELOPER IN  
THE INDUSTRY  
PRO MENADE TENANTS ASSOCIATION  
1201 FIDLER LN  
SILVER SPRING MD 20910

0847 EST  
MGM 134



EXHIBIT  
No. 44

February 17, 1981

Richard Friedman 701S

This is to advise you that your occupancy of Apartment # 701S at The Promenade which at the present time is on the status of month-to-month tenancy, will be terminated by the Landlord effective 5/31/81 and this shall serve as notice to you to quit and vacate said apartment on or before 5/31/81.

This notice shall run to the benefit of any successor which may have an ownership interest in your apartment.

In accordance with Section 29-27(f) of the Montgomery County Code, 1972, as amended, we wish to inform you general information and assistance regarding eviction is available from the Office of Landlord-Tenant Affairs and in the event of eviction by Judicial process the tenant has the right to request at his own expense or with financial assistance from the county if such assistance is available, through the Office of Landlord-Tenant Affairs, moving services and storage accommodations by making such request prior to or immediately following the entry of judgement, provided such service and facilities are not otherwise available to the tenant.

Sincerely yours,  
WILLOWICK MANAGEMENT CO. AS AGENTS FOR/  
LANDLORD

  
Gloria L. Luksch  
General Manager



**Dear Residents,**

Because of your wise decision to purchase at Grosvenor Park you have

## **Substantial Equity**

which enables you to take advantage of a

## **Ground Floor Opportunity**

to purchase at the Promenade with resident discounts and below market financing

## **Call Terry Burch**

I encourage any interested resident to contact me for a Residential Market Evaluation of your home.

• **493-6500** •

**Home Marketing of America**

10500 Rockville Pike, Suite G-8, Rockville, Maryland 20852 Telephone (301) 493-6500



# LIMITED OFFER

EXHIBIT  
No. 54

*Offer May Be Withdrawn At Any Time, Without Notice.*



*The Promenade*

*A Mutual Housing Corporation*

**CURRENT  
RESIDENT DISCOUNTS**  
Now Available To The Public And Residents.

## THE BENEFITS

**(Totaling Approximately 14% In Discounts & Allowances)**

☒ **5% Discount Off Purchase Price**

☒ **2% Credit**

*If Purchased Before 1/27/81 & Closed Before 4/1/81.*

☒ **6-Month Rent Credit**

*Non-Residents Will Be Credited With Average Rent  
On Type Of Unit Chosen.*

☒ **No Monthly Fee 'Til 1982.**

*Developer Pays It Through 12/31/81. Exclusive Of Base  
Requirement. Can Also Be Taken As A Credit.*

☒ **Closing Cost Credit**

*Closing Costs Customarily Paid By Purchaser Will Be Paid  
By Developer. Not To Exceed \$500.*

# PROMENADE TENANTS ASSOCIATION

RICHARD L. FRIEDMAN, CHAIRMAN  
5225 Pooks Hill Road, Apt. 701-S  
Bethesda MD 20014  
Phone (301) 530-2886 Home  
(202) 466-2244 Office

March 18, 1981

EXHIBIT  
No. 6

OFFICE OF CONSUMER AFFAIRS  
SECURITIES & EXCHANGE COMMISSION  
ATTN: Mr. Bob Shaw  
500 N. Capitol Street  
Washington DC 0001

Dear Mr. Shaw,

Last evening the Board of Directors of our tenants association voted unanimously to lodge the complaint that follows.

We are writing this complaint concerning the continued offering of shares of stock in the Promenade Towers Mutual Housing Corporation. On the surface this appears to be a usual and ordinary offering of shares to prospective residents bestowing upon them the right of occupancy. Quite the opposite is true. A great many shares are being offered for sale and in fact being sold upon the inducement of profits to be gained. The sales agreement represents an investment contract.

I. Notwithstanding the recitation of the par value of \$.10 (10c) per share upon the stock certificates offered, the shares are an original offering at an announced value of \$137.00 per share. Since there are five hundred seventy six thousand nine hundred forty-eight shares authorized, the issue does not fall within the exemption of shares in cooperative real estate corporations.

II. The Corporation through its agents (Home Marketing of America) has offered the stock to a great many investors for the express purpose of making a profit. (See Attached ad to residents of the Grosvenor Park Apartments - Grosvenor Park Apartments was converted to condominium and apartments sold by the same sales and marketing company) The Corporation has invited participation of real estate brokers and salespeople who have induced others to purchase more than one apartment obviously not for occupancy but for profit. (See attached list of salespeople and brokers and some names of investors and apartment numbers of affected apartments) Your investigators will find apartments for rent advertised by investors in the Washington Post.

III. The shares of stock are being marketed as an investment in a common venture with a reasonable expectation of profit to be derived by the entrepreneurial, managerial, and promotional efforts of persons other than the purchaser. The facts are clear that persons are buying shares entitling them to occupancy of more than one apartment. Obviously this can not be

## Security &amp; Exchange Commission Complaint

motivated by a desire to occupy or develop the property on their own. The contrary is apparent, they are motivated by a desire of a favorable return on their investment. Even the long time residents of the Promenade, who were induced to purchase, were induced by reason of the expectation of a profit. ( See Leonard Kligman's letter in the "What's happening at The Promenade" ) "\*\*\* a residence which would appreciate far faster than stocks, bonds or savings accounts."

IV. Other than the undesirable effects upon inflation and the social problems caused by (Buy Now or Get Out) high pressure sales tactics, good business judgement dictates that stock should only be sold upon the basis of a prospectus and recent financial statements. The shares in Promenade Towers Mutual Housing Corporation are being offered without either. The risks, that the Security and Exchange Commission was formed to protect, are present in the case of the conversion of this rental property to Co-operative ownership. The building after 8½ months of attempted sales is one third or more unoccupied or non-productive of revenue. Prospective purchasers should be protected by divulging the financial condition of the Corporation, the names and addresses of the principal shareholders, and information as to the protective provisions with regard to potential loss of selling shares entitling the holders to a right of occupancy in a seven or eight year old building. The boilers, hot water system, air conditioning (all centrally operated) and overworked elevators are contingent liabilities that should be provided for by some reserve fund. (There is no protective legislation in the County or in the State of Maryland with regard to co-operative conversion of real estate)

V. Shares of stock should be sold by persons licensed to sell stock, and subject to the rules governing the conduct of salespersons authorized to sell investments. This is quite a different responsibility than that imposed upon real estate sales people. There are apparent abuses by the persons acting for the Corporation; namely, failure to disclose the existence of an underlying mortgage the proportionate share of which must be assumed by the purchaser. The deceptive advertisement of apartments in the newspaper (advertisement enclosed) which does not reflect the underlying mortgage in the price, would be frowned upon if the shares were being offered in connection with some other benefit other than the right of occupancy. (For example, if the shares offered also carried the right to use an automobile but the price of the stock did not reflect the cost of a conditional sales contract or chattel mortgage to be assumed by the purchaser of the shares.) Surely the SEC would consider that improper advertising - at the very least.

VI A minimum amount of investigation on the part of the Commission will confirm that:

Shares are being sold to investors as evidenced by their receiving the right to occupancy of more than one apartment.

Purchasers are being induced buy shares upon the promise of profit by reason of the efforts of the Corporation.





EXHIBIT  
No. 7

EXHIBIT  
No. 7

# The American People Have Spoken.

**We believe in America.**

**We believe in the Constitutional Rights  
of each American in both the private  
and business sector.**

**We believe in the American Enterprise System.**

The Constitution of the United States expressed the beliefs of our founding fathers that each individual has certain inalienable rights.

We believe that each individual also has an inalienable responsibility to defend these rights.

We believe that Congress has an inalienable responsibility to defend these rights.

We believe that the Supreme Court has an inalienable responsibility to uphold these rights.

We believe that no one man, not even a Congressman, should be allowed to claim that he has the combined powers of the Constitution, the Congress and the Supreme Court of the United States and that he can use such combined powers to unwarrantably harass, abuse and usurp the Constitutional Rights of any one individual or business entity, despite any ideological differences between them.

The Constitution of the United States has intelligently, specifically, and with great foresight, separated the powers of government to prevent such abuse!

Nicholas S. Gouletas  
Chairman of the Board



# Fort Lauderdale News / Sun-Sentinel

SUNDAY, February 8, 1981

EXHIBIT  
No. 2

Home  
Final  
50 Cents

## They get rich quick on high rises

By Dennis Kneale

The one-time sweater manufacturer from Philadelphia was ready to spend the rest of his life in the Galt Towers apartment he had rented for two years after retiring. Then American Invesco Corp. got in Art Kramer's way. Invesco, the largest condominium conversion company in the nation, purchased Galt Towers for \$9.75 million in 1978. Kramer would have to buy his apartment — or get out. So Kramer left. "I thought the prices were outrageous," he said.

The 78-year-old retiree became a loser in the high-priced game of condominium speculation. But for those who can afford it and are willing to play, the winnings are often big. And many of those connected



### The condo speculation game

with Invesco are playing — especially in Fort Lauderdale — a two-month investigation by *The News and Sun-Sentinel* revealed. Condominium conversion, coupled with hungry investors, has driven up the price of condominiums throughout the

nation, according to a confidential congressional report obtained by *The News and Sun-Sentinel*.

Well-heeled investors, mostly using little more than local mortgage loans, are raking in thousands of dollars in profit by buying and reselling condominium units.

The practice, now beginning to hit hard at South Florida's condominium belt, is not illegal, but left unchecked, it could send the cost of condominiums soaring beyond the means of many, investigators said.

The congressional report accuses the Chicago-based Invesco of improperly driving up the condo prices, here and in other cities, beyond what people like Kramer can afford.

Invesco converted Galt Towers, 4150 Galt Ocean Drive, to September 1978 and the Royal Anthemshire, 3709 Galt. Please turn to page 14A, column 1.

### Inside

- Conversions spark big buying wave, 12A
- Old world ethic spawns empire, 13A
- Hard work, long hours pay dividends, 13A
- Condo groups can help halt speculation, 13A

111

## They get rich quick on high rises

Continued from page 1A

Some of company executives and their employees rushed to buy units in the new waterfront condominiums within days after the buildings were converted.

Invaco executives have kept the units out of the hands of home-owners — and in the hands of investors, corporations and themselves, congressional investigators said in the report.

The report, according to the congressional report, is speculation-related inflation. In Broward County condominium prices soared 77 percent in the past two years, although not all of it can be attributed to speculation.

Investigators also noted the speculation has slashed the number of condominium units available to

authentic buyers, while using local mortgage dollars that should go to homeowners, not investors.

The congressional report noted 20 condos in Fort Lauderdale were held by Invaco insiders. But The News and Sun-Sentinel learned insider ownership goes much further:

• A total of 79 condominiums were owned by American Invaco employees in the two Fort Lauderdale complexes, Galt Towers and Royal Ambassador — about 18 percent of the total number of units in the buildings. Total worth — more than \$5.6 million.

• Twenty of the insider-owned condos here were resold for a total personal profit of \$421,615 — an average per-sale profit of 403 percent.

• At least 15 employees, plus five relatives of Invaco officials

privately bought up condos here in the names of their children, spouses, small corporations and themselves — within days after the corporation converted the buildings.

Invaco's chairman of the board, Nicholas Goulas, and its executive vice president, his sister Evangelina, refused comment.

But other corporate officials maintained Invaco has done nothing wrong.

Invaco attorney James Fitzpatrick, in the firm's official rebuttal to the congressional report, said, "The report nowhere concludes that American Invaco has violated any statute or regulation issued at any level of government."

Corporate Vice President Conrad Neumann, who purchased two units

Please turn to page 14A, column 1

## They're winners in condo game

Continued from page 1A

in the Fort Lauderdale buildings, said, "I don't personally think there's anything wrong with that."

"Typically some employees will buy condominiums in some of our buildings. It's neither encouraged or discouraged — it's permitted."

In such Invaco-converted building, corporate employees have had advantages that are unavailable to regular buyers.

Employees get an automatic discount of at least 10 percent off the sales price. In addition, sales representatives get back a commission on their own purchases.

"That really is nice, isn't it?" said Charles Kimball, a South Florida real estate analyst, who closely monitors the area housing market.

"The profits in condo speculation are phenomenal right now. They are making money off of people because of tremendous greed."

Condominium speculation has caught government off guard, according to congressional investigators.

There is substantial evidence that speculative purchases of condominium housing units contribute materially to housing inflation (and) undermine the public policy purpose . . . designed to finance economical home ownership," investigators said in the congressional report.

How speculation fuels inflation is based on the law of supply and demand, the congressional report said. If 20 homeowners want to buy, but only 10 condos are available because investors bought the rest — the homeowners will have to pay more to compete for the scarce products, the theory goes.

But Invaco officials, in their rebuttal to the congressional report, said, "The (congressional) staff's analysis rests in Marxist economic theories...The report's concern about the role of 'investor speculators' is totally misplaced."

But investor-speculators play a major role in the two Fort Lauderdale buildings converted by Invaco.

The investment in the two buildings does not stop with Invaco employees. Corporations from Virginia, Michigan and Indiana have bought up condos in the Galt and Royal Ambassador — but not at the same rate as Invaco employees.

In addition to the 79 condos owned by Invaco employees, another 73 were turned to people living outside Florida.

For example, Ruth Raab and William Townsend own separate condos at the Royal Ambassador. She has her address in Chicago at 4350 N. Marine Drive. He has his Chicago address at 1 E. Schiller.

Both addresses are those of condominium buildings owned and converted by American Invaco Corp.

Other investors apparently followed Invaco conversions around the country, buying up condos for speculation purposes.

"There are certain kinds of property that have value. I like that particular area," said Chicago attorney Peter Anagnost, who owns three condos in Galt Towers. "I know the (Goulas) family. I heard about the condos through some members of the firm."

His law office is on LaSalle Street in Chicago, just a few blocks down from Invaco headquarters.

The congressional report noted, "Large numbers of speculative investors" were found at Invaco buildings throughout the country.

At 21 Turtle Creek in Dallas, 85 percent of the 560 condos sold went to investors rather than homeowners; half the condos sold at Ilwaco Manor in Houston went to investors; about 35 percent went to investors in Harbor House in Chicago, according to the report.

Real estate analysts say the practice is common.

"What you have discovered is very common in condo conversions and new condominiums," said real estate economist Kimball. "We find a number of developer employees buying up units."

In addition to other Invaco-insiders who purchased units in the two Fort Lauderdale buildings:

• Twenty-one condos in Galt Towers and Royal Ambassador were owned by members of the Greek family that formed American Invaco in 1969 — The Goulas family. Ownership spans four generations and totals more than \$1.5 million.

• Victor and Irene D'Agostino, two top American Invaco executives, owned seven condos they bought for \$48,840. They resold two at a profit of \$18,340 — 34.3 percent.

• Thomas Gialluma, general counsel to an Invaco subsidiary, owns five condos he purchased for \$413,700. Five other executives own three condos each, and five have own a pair of condos apiece.

"More employees bought condos there than in any other two buildings the company converted," said Stephen Beauchamp, a former top-ranked sales manager for Invaco who left the company last year.

"It was sort of a benefit of being in a company that had prime properties," he said. "It was our way of participating in the company's success. Not everybody did it."

For those who took a chance, the investments in Invaco's Fort Lauderdale buildings have turned lucrative profits. Consider this:

• Neumann, corporate vice

president, bought a one-bedroom condo in Galt Towers for \$92,900. He sold it for \$148,000, a 59.3 percent profit.

• Carl Edwards bought a two-bedroom Galt condominium for \$63,425 and resold it for \$113,000 — a profit of \$49,575 or 78 percent. Edwards is a Fort Lauderdale based sales manager for Home Marketing of America, an Invaco subsidiary.

• Bruce Kinsey bought a Galt penthouse for \$62,900 and resold it for \$108,000 — a 71.7 percent profit. Kinsey was an Invaco executive before resigning last year.

"I think we're getting a bad rap for being responsible for inflation," said Neumann, who has bought a dozen condos in Invaco projects in four years.

"Our attorneys have very carefully demonstrated we are not responsible for inflation, nor have we done anything wrong."

But U.S. Rep. Benjamin Rosenthal, chairman of the subcommittee which ordered the confidential report, said something has to be done to regulate condominium speculation.

The middle-income buyer can no longer afford the speculation-fueled prices of condominiums, investigators said in the congressional report. And even if he could, there is a shortage of mortgage loan money available to him — because it has already gone to speculators, they said.

Invaco executives counter that speculation has little impact on condominium prices nationally.

Corporate spokesman David Varner charged the congressional report was off-base and that Rosenthal was "quite publicity-minded."

But he refused to elaborate and referred all questions to the corporation's formal response to the congressional report.

Two-listed capitalism is the American way of life, Invaco officials point out. Speculators should be left to invest as they wish, the officials maintain.

Invaco's use of local mortgage loans to reap thousands in profits is what should be regulated, Rep. Rosenthal said. For decades federal rules have tried to reserve the loans for authentic homeowners.

Because the federal government insures lending institutions, federal agencies have adopted policies "designed to limit and even discourage the heavy involvement of speculator-investors" in the home-owners market, according to the congressional report.

But condo speculation is so new that federal rules fail to adequately address it, Rosenthal said.

By borrowing money from local lenders here, Invaco insiders were able to reap thousands of dollars in profits without having to put up much money of their own.

Here is a look at some of those who have played the game and won:

• Stephen and Mary Gouletas, parents of the founders of American Invaco, needed only \$13,200 to buy a condominium for \$45,900. A mortgage loan provided the rest. The couple then resold the condo at a profit of \$32,600.

• Evangelos Gouletas needed only \$11,200 to buy a \$35,000 condominium in Galt Towers — a loan supplied the rest. A founder and executive vice president, Gouletas resold the condo at a cash profit of \$24,000.

• Victor D'Agostino used only \$13,000 of his own money to buy a condo for \$44,900. D'Agostino, financial adviser and brother-in-law to the Invaco chairman of the board, resold the condo and cleared a profit of \$29,100.

In each case, American Invaco employees had to put up only 30 percent of the sale price of to buy their condos. Local lenders provided the rest. Then the employees resold the condos, paid off the mortgage, and made a profit.

"Anybody who qualifies can get a mortgage loan. The money is there to be had for anybody who qualifies for a loan," said Invaco spokeswoman Marion Purcell.

Records show she spent \$10,600 of her own money for a \$33,600 condo in Galt Towers. First Federal of Miami (now AmeriFirst Federal) gave her a \$42,400 loan.

Current mortgage regulations limit investors like Purcell to no more than 30 percent of the sale price; they must put up the other 20 percent. Authentic homeowners, conversely, can get up to 80 percent from mortgage loan money.

"That's the point of the 80 percent requirement, is that you discourage speculation. But it's not," congressional investigator Ted Jacobs said.

"Savings and loan associations should be told they can't rent money to speculators when there's families that can't get loans," analyst Kimball said.

If the investors had to put down the entire sale price themselves rather than only 30 percent, speculation would decrease, and more mortgage money would be left for actual homeowners, Kimball said.

While the mortgage loans help investors purchase condominiums, they also result in higher rents to the tenants that lease the condos from the investors.

Most of the investors who hold more than one condo here rent the units out of an annual or monthly basis — often at rates almost twice that of the former apartments.



# Hard work, long hours pay rich dividends for Invsco firm's 'family'

By Dennis Kucala  
Staff Writer

Employees are told to think of themselves as part of "The Invsco Family."

Those who work hard, work long, and are loyal are rewarded by the Gouletas clan.

"If you've been around for a long time, you're considered a part of the family," said Conrad Neumann, an Invsco vice president. "It's oriented very much toward loyalty and working hard for the company."

"If you've been around for a long time, you're considered a part of the family. It's oriented very much toward loyalty and working hard for the company."

— company official Conrad Neumann

And the company family is a big one. American Invsco Corp. and its three major subsidiaries employ about 150 people.

The corporation is estimated to have grossed as much as \$1 billion last year. The emphasis is on condominium sales.

Invsco, a name derived from "investment company," was formed in 1959 by Nicholas Gouletas, his sister, Evangelina, and his brother Victor. The Chicago-based corporation employs about 150 sales representatives, under the guidance of about 20 managers. It has offices in 10 states.

With their sales forces spread across the country,

the Gouletas family host a yearly banquet to bring as many employees together as possible and reward some with various end-of-the-year gifts. The Silver Chalice, a sterling drinking cup, is the most coveted award. It goes to the top salesperson of the year, with a duplicate placed in a trophy case at corporate headquarters in Chicago.

Stephen Beauchamp was Invsco's top sales manager in 1979. He peddled \$6 million worth of condominiums and trained 13 other salespersons who sold in excess of \$1 million each, according to corporate publications.

"You work seven days a week in that job," said Beauchamp, who left the company on good terms and is now a real estate agent in St. Petersburg.

"They moved me 14 times in four years. That's okay to a point, but if you have a family it doesn't become practical. They're strong on the work ethic."

Beauchamp was awarded the Silver Chalice in 1979.

"I still drink egg nog out of it every once in a while," he said.

The corporation forms "clubs" for each level of sales volume — the \$1 billion club, the \$2 million club, and so on.

"I was in the \$5 million club, and so was my wife, Carol," said Robert Harkey, another former top-ranked sales manager who resigned in 1979.

Such husband-wife teams are encouraged at American Invsco to build up the "Invsco family" philosophy.

"If they moved you 14 times in four years, you'd probably want your wife working with you, too," Beauchamp said.

Before a new salesperson can hit the field, he or she must undergo an intensive, Invsco-tailored training program of three months, followed by another 200 hours of supervision.

The sales representatives learn the finer points of the Invsco approach — tax shelters, "positive mental



Evangelina Gouletas and, from left, her brothers, Nicholas and Victor, in their Chicago office.

attitude, enthusiasm in selling," according to corporate spokeswoman Marion Purcell.

The rigid instruction works. In 1979, 15 Invsco salespersons each sold more than \$5 million worth of converted condos. Another 19 salespersons peddled

in excess of \$3 million apiece, and 24 additional employees sold more than \$1 million in condos each, according to statistics provided by Purcell.

Success has shined on the Gouletas family as a result.



# Condo associations can act to halt speculation

By Dennis Kersale

Staff Writer

While congressional investigators search for ways to discourage speculation in the condominium market, South Florida condo residents have little-known legal rights for curbing the profiteering themselves.

Condominium speculation can fuel price increases, foster rent hikes and use up mortgage money that should be set aside for homeowners, according to the confidential congressional report.

Such activity can be stopped in some cases by condominium homeowner associations in South Flori-

da, where court precedent allows associations to adopt restrictions in their own bylaws.

"The courts have said the interests of the community as a whole will supersede those individual concerns" of investors who want to lease their apartments, said attorney Alan Becker, whose law firm represents more than 200 condominium associations.

The president of the condo association at the Royal Ambassador, John McDonough, said he is unconcerned by the high level of investor ownership — as much as 70 percent — in his building. Other residents, however, said they are now ponder-

ing changing their condo bylaws to establish restrictions that would curb the investor volume.

Most condo associations have left the speculation untouched, Becker said. Many, however, are adopting restrictions that could serve to discourage speculation anyway — though their intent is to cut down on the number of short-term tenants.

"As far as speculation driving up prices, we haven't had a rash of complaints," Becker said. "In situations like Galt Towers, usually that has happened before anybody is aware of it."

Tenants are a particularly sore

spot. There's some concern about speculation, but the main concern about tenants (vs. resident owners) is the transience aspect. People don't want their properties treated like a hotel."

A Fort Lauderdale condo association just last week voted to change its bylaws to cut down on the number of short-term tenants who rent from investors, Becker said.

The new bylaws prohibit condo owners from selling or leasing their apartments to corporations, partnerships and the like, Becker said.

A ruling from the state's Fourth

District Court of Appeal in West Palm Beach allows such prohibitions. A West Palm Beach condominium association had said, in its so-called Declaration of Condominium, that condo owners must live in the units they purchase. This declaration barred investors from renting out their condos.

Two sons had inherited a condo from their deceased mother. The association allowed them to keep their mother's condo for a year and then ordered them out. The brothers challenged the order.

The state appeals court ruled the association's right to discourage

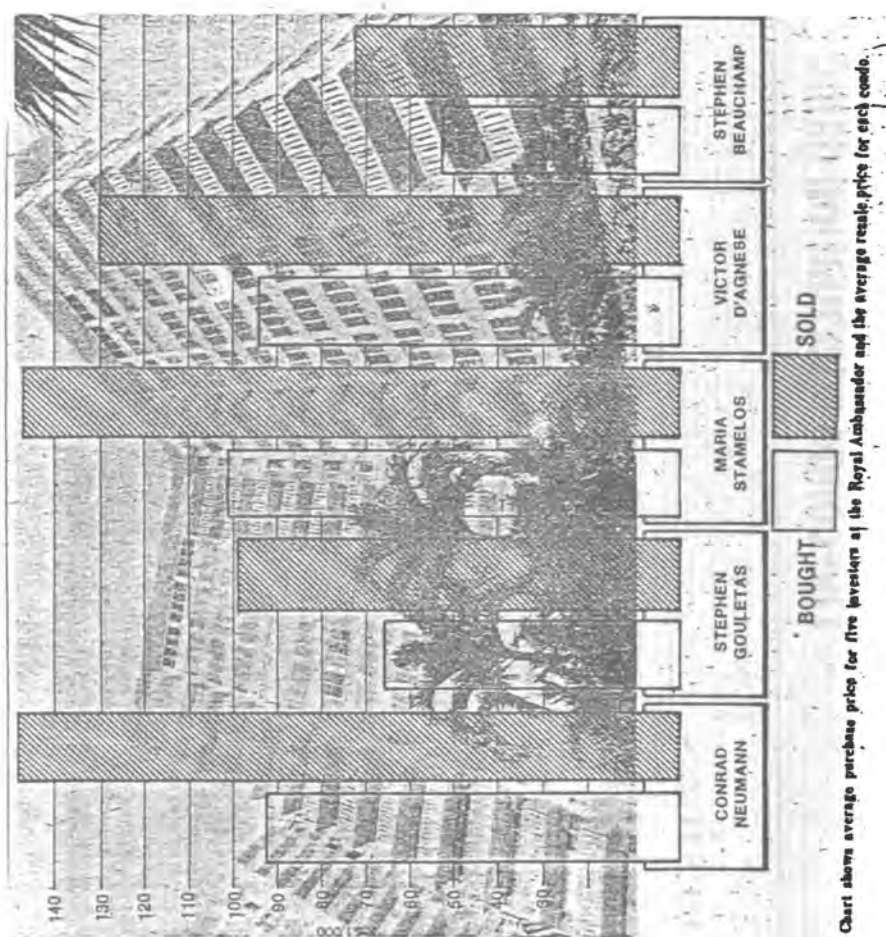
speculation outweighed the sons' right of ownership.

"The community goal outweighs the social value of retaining for the individual unit owner the absolutely unqualified right to dispose of his property in any way and for such duration of purpose as he alone desires," the court ruled.

The ruling means new condominium associations could adopt, from the start, anti-speculation measures. Already established associations would have to phase in the change gradually, applying the restrictions to new sales, Becker said.







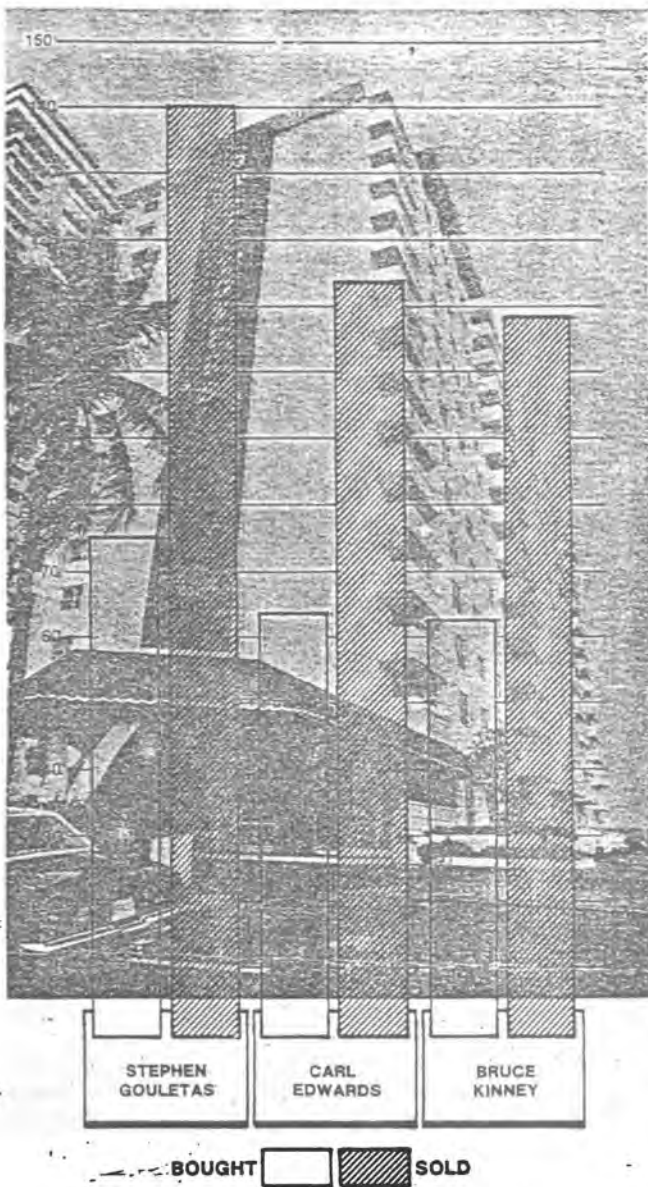


Chart shows average purchase price for three investors at the Galt Towers and the average resale price for each condo. Invaco insiders earned large profits from their investment.

At one point, 40 people connected in some way to Invaco enterprises owned 79 condos — bought for more than \$5.4 million — in two oceanfront buildings in Fort Lauderdale. Twenty condos have since been sold by 15 of the Invaco insiders — at an average profit of more than 40 percent. Most of the units were sold within 10 months of the purchase date.



Mr. ROSENTHAL. Mr. Beckman, do you want to put that microphone in front of you?

**STATEMENT OF ALLAN J. BECKMAN, ATTORNEY, BEAVER HILL  
TENANTS' ASSOCIATION, JENKINTOWN, PA.**

Mr. BECKMAN. Thank you, Mr. Chairman.

Mr. Chairman, and members of the committee, my name is Allen J. Beckman. I am an attorney in Philadelphia and president of the Tenants Association of Park Towne Place, a 1,000-unit complex in center city Philadelphia.

I am the former president and current general counsel of the Council of Tenants Associations of Southeastern Pennsylvania as well as general counsel to the United Tenants Association.

I have represented the interests of these poorly financed tenants' associations and a number of individual tenants' associations of buildings undergoing conversion to condominiums in the Philadelphia and Pennsylvania area over the past 2 years.

I would first like to make it clear, and I think it is supported by the previous testimony today, that I do not oppose new buildings constructed as condominiums. Also, although I have some problems with the idea of converting a rental apartment building to privately owned condominiums which were not built for that purpose under any circumstances, conversions that take place over a relatively long period of time can be accomplished with significantly less medical, financial, and emotional trauma than rapid condominium conversion.

Unfortunately we are now in the age of rapid condominium conversion, a phenomenon which was developed for the purpose of quick, excessive bottom-line profits and with very little, and in most cases absolutely no social conscience or interest in the larger public welfare or the housing needs of a particular community.

A community facing the onslaught of rapid condominium conversion is indeed a community under siege. Most often, out-of-town interests, wise and experienced in the game of condo conversions, descend quickly on a targeted market.

They are armed with immense financial resources, sophisticated and often questionable, if not deceitful marketing and financial practices. They employ resourceful sales agents and the highest priced attorneys and lobbyists.

They quickly buy up prime rental properties, convert them to condominiums, in most cases calculatedly stampede tenants into buying or moving, count their profits, which are aimed at the 100 percent or higher mark, and basically grab the next flight out of town.

In most cases they leave behind social dislocation, displaced tenants, increased living and housing costs, a depleted rental supply, traumatized tenants—especially among our senior citizens—and budding social and housing problems for the community.

When the condo converters first came to Philadelphia and its suburbs, they claimed that condo conversion would stabilize neighborhoods made up of transient tenants. They claimed that renters would now be able to purchase their homes and take advantage of tax deductions.

Experience has proven such claims to be largely incorrect and misleading. The buildings they bought and converted were almost always buildings in which a large percentage of tenants had resided for 5, 10, 15 years and longer. Such neighborhoods did not need to be stabilized and, in fact, were more stable than the average American single-family dwelling neighborhood.

The tax deductions they spoke about were and are meaningful only to those in the higher income tax brackets.

It is common knowledge that most people live in rental units for a reason, perhaps giving up a home, single-family dwelling that they had had for a number of years because they felt the physical, financial, or emotional stress in maintaining a single-family dwelling was just too much, or they might be younger and attempting to get established in business and professional life with a view toward accruing money that will eventually be used for downpayments on property.

Tenants in their middle ages usually simply cannot afford to own their home. Most of these people cannot use the tax deductions so highly touted by the converters.

Most importantly, the converters come into someone's home and compel them to make a choice they may have no desire to make, and I think you have heard ample testimony today from individuals who have been compelled to make that choice, should they buy or should they move, or they will be evicted.

And, when rapid condominium conversion descends upon a community and one building after another gets converted, where will they move?

There are situations in which people have been condoed out of the building that they have lived in for a number of years only to be condoed from the next building and then condoed again.

There are psychiatrists who treat condominium conversion neurosis in some of the rental markets which have been devastated by the condo converters.

By the way, this is just one of my footnotes. It is backed up by a newspaper article talking about just that subject.

In Philadelphia, the major converters seem to be based primarily in Chicago. Most prominent among them are American Invsco, Robert Sheridan and his various affiliates, and Wayne Kubicki and his various affiliates, and, boy, do they have various affiliates.

These are the most sophisticated big boys with seemingly direct channels to the lending institutions. There are smaller mom and pop operations starting up about now and converting smaller buildings with much less expertise and, in my opinion, even greater likelihood for mischief.

The toughest, most unrelenting and, in my opinion, heartless of this crew is American Invsco. The others I have mentioned aim for the same bottom line with sometimes slightly different tactics. The end result is substantially the same. There is most often physical, financial, and emotional trauma. It can be heart rending, as you have heard today.

Robert Sheridan and his affiliates bought a building in center city Philadelphia called the Touraine. At first he stated publicly that the Touraine would be converted to condominiums, and he announced an unusually substantial rehabilitation program.



I say unusually substantial because almost in every case they will take a lobby that was just redecorated 3 years earlier and redecorate it again and leave the holes in the roof, leave the air-conditioning and heating systems just as they were, forget about the smoke that comes up through the incinerator at Beaver Hill—and I see we have representatives of American Invsco who worked at Beaver Hill here.

Mr. Sheridan also stated that leases would not be renewed and he would offer to pay tenants who would move out by May 31, 1981, warning them that if they remained beyond that date they would have to live with the inconvenience of the construction that would be going on.

When the tenants organized an association to resist the conversion, Mr. Sheridan changed his position and stated that he really wasn't sure whether he was going to convert the building to condominiums or reopen it as rental apartments; he would have to make that decision after all the tenants were out and he had a chance to see what the financial situation was after rehabilitation.

The tenants have just recently filed a lawsuit claiming that Mr. Sheridan is indeed attempting to clear the tenants out of the building in order to change its demographic makeup for marketing purposes and is therefore circumventing the Pennsylvania Uniform Condominium Act which requires that leases be extended for all tenants so they can be given a 1-year notice of the conversion.

The tenants who are 62 years of age or older, blind or disabled, receive 2-years' notice of the conversion.

In addition, all tenants must be given an exclusive right to purchase their apartment units for the first 6-month period.

With that as background, I would like to read you a letter which appeared in the March 25, 1981, edition of a Philadelphia weekly newspaper called the *Welcomat*.

When I received Mr. Sheridan's letter that The Touraine is going condo, so I went too [sic] look for an apartment. He also said in the letter that the building should be vacant May 31. From all the excitement I got a heart attack and I was 2 weeks in the hospital. Now I am home and too weak to look. That is the truth. Mrs. Goldie Hirsch, Apartment 903. P.S. I am 88 years old.

Mr. Sheridan announced his plans for the Touraine a month or so earlier and at that time Mrs. Hirsch aligned herself with the tenants fighting the plan to convert. Later she, like many other tenants under similar duress, set out to find a new home before the May date. She wrote the letter I have quoted two Saturdays ago, on March 21, 1981. On Monday afternoon, March 23, reportedly while out looking for a new home, Mrs. Hirsch suffered her second heart attack. She died a short while later at Graduate Hospital.

Certainly older people die of heart disease every day, regardless of their housing situations. But Touraine tenants point to Mrs. Hirsch's letter and its poignant description of the stress and upheaval she was experiencing and say that they have no doubt about what at least contributed to her death.

I might add at this point that having been involved in this for the past 2 years I cannot tell you how many times I have had the same circumstance reoccur.

When addressing a group of people I will have one elderly person approach me and say, "I have never taken a tranquilizer in my

*life.* Now the doctor has me on the little white pills," and this *indeed* happened on two occasions in Philadelphia.

A second person comes up to me and says, "I used to take those little white ones. Now I am taking the yellow ones," and a third person comes up and says, "I used to take the yellow ones, now I am taking the blue ones," and if you know anything about your PDR's, your physicians desk reference, you know that I am discussing Valium.

This is an extremely broad situation.

Goldie Hirsch is only one of thousands who have suffered and are presently suffering from such artificially induced profit-motivated trauma.

I do not question anyone's right to make a profit and I do not question the basic principle that individuals should be permitted to dispose of their property any way they see fit, consistent with public policy.

However, when excessive profits are being made with questionable marketing and financial procedures at the expense of a very discernible portion of the population and with negative social effects, I believe there should be a public policy to balance the scales and protect the people—the taxpayers—who are being set upon by slick, sophisticated, uncaring speculators.

My allotted time today does not permit a discussion of the artificially inflated housing costs created by such conversions. Neither is there time to discuss the specific marketing procedures that are questionable, misleading, or even deceitful, nor the negative national social consequences.

I hope in the next 2 days you will inquire into these matters as your hearings progress.

Current State laws and especially the so-called Uniform Condominium Act may be adequate with regard to the regulation of new buildings being constructed as condominiums. Those same laws are nothing more than a cruel joke for tenants and outsiders considering purchasing an apartment unit in a building that is being converted.

Condo conversions are not statewide problems. They are Federal and local problems. There must be Federal legislation establishing the minimum regulations for disclosure of structural, engineering, and financial information and protection for tenants who have made their homes in buildings about to be converted.

Such legislation should permit each municipality to determine its own housing requirements and further regulate conversions consistent with its own peculiar needs.

I might add that in the Philadelphia situation we have a number of census tracts, and clearly a dozen individual neighborhoods, one looking nothing at all like the next, and in a city like Philadelphia we really need different regulations in each neighborhood because the situation is so terribly different from one neighborhood to the next.

Rural communities face virtually no threat of condo conversion. They have few, if any, rental apartment buildings. Most urban and many suburban areas have or will face the threat.

The converters target limited, but major, markets—not entire States. In Pennsylvania two-thirds of our 67 counties are being

devastated and there is some activity in 8 to 12 other counties. State legislatures in the other 52 counties cannot be expected to become intimately concerned with conversion problems.

I might add at that point unfortunately three of them serve on the conference committee that considered this so-called Uniform Condominium Act and the amendments that tenants had introduced to it and as a result I don't think I have to tell you that that piece of legislation is just about meaningless to tenants in Pennsylvania.

Time is running out. Twenty major buildings—by that I mean 350 to over 1,000 units apiece—have been converted in Philadelphia within the last 2 years. There have been approximately 10 other major buildings in the communities immediately surrounding Philadelphia that have been converted.

Once a tenant is forced to find a way to buy or be compelled to move out, change neighborhoods and find another place to live, the problem becomes moot. In the Philadelphia area it is already moot for thousands of former renters.

Before these converters target other markets or continue to devastate the Philadelphia market, we must have Federal legislation.

The legislation should begin with a complete ban on condo conversions and their sisters, cooperative conversions, until a meaningful study can be made and well-considered legislation drafted.

By the way, it would do one other thing. It would stop the incredible momentum that these converters absolutely depend upon; whether it is in the individual building being converted, through their PR people and their media people who handle the press and try to establish opinions in a community, wherever it is, momentum is extremely important to them.

That is why they seek to get 30 percent or more of the tenants who are presently living in a rental apartment building to buy their units, because once they do that they usually have to only go another 5 or 10 percent to reach their break-even point, and from that point on it is gravy.

Please keep in mind that tenants are poorly organized and financially bereft compared to the converters. All one need do is review American Invsco's list of lobbyists to discover how important it must be to them to keep this goose that is laying golden eggs. We have no lobbyists. We must depend on you.

Thank you very much for hearing our testimony.

Mr. ROSENTHAL. Thank you.

[The appendix to Mr. Beckman's statement follows:]

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Monday, October 8, 1979

Page 14-A

## Condos: A national issue

The City Council, to its great credit, recently approved a bill sponsored by James Tayoun that places an 18-month moratorium on conversion of apartment houses to condominiums in Philadelphia and, after that, requires that tenants be given a one-year notice of intent to convert. However, suburban counties of Southeastern Pennsylvania and many other areas of the state and nation remain vulnerable to condo-converters out to make a quick profit. Congress needs to give early consideration to legislation that would protect tenants' rights nationally.

A bill awaiting action by the legislature in Harrisburg would provide some protection, but not nearly enough. It has no moratorium provision. A tenant could be forced to vacate with only four months' notice.

The number of apartment units converted to condominiums nationally is increasing dramatically. There were about 50,000 in 1977 and 100,000 in 1978. Latest estimates are that the number may double again, and then some, in 1979. Even if those estimates should prove to be inflated, the problem clearly is serious and growing.

We call it a problem because renters of apartments can be victimized where they are not protected by strong local or state laws regulating conversion to condominiums. Some tenants cannot afford the higher monthly payments that usually result from conversion. Some cannot afford the down payment. Some who don't want to buy a condominium, or can't afford to, have no where else to go. More than a few are elderly or in poor health, or both, and simply want to live out their lives where they are.

These human concerns may be of

little or no interest to real estate speculators, often from out of town, who can buy an apartment house for more than it is worth and still make a handsome profit by selling each unit as a condominium. Tenants who won't or can't buy are kicked out and their units sold to others. Federal income tax laws encourage those who can afford to buy to do so. The most vulnerable victims are the elderly with fixed income and in relatively low tax brackets.

Rep. Benjamin S. Rosenthal (D., N.Y.) has introduced a bill that should provide the basis for congressional examination of condo-conversion problems and possible courses of action to protect tenants against unfair action. It calls for a three-year moratorium on conversion of apartment houses to condominiums or cooperatives. It would establish a presidential commission to study condo-conversion problems and make recommendations that could lead to further legislation. It would require in some situations that condo-converters provide payments up to \$400 to help offset moving costs of tenants forced to vacate.

The Rosenthal bill also would classify the profits of a condo-converter as ordinary income, instead of capital gains, for federal income tax purposes — reducing the profit potential. It also would deny federal Community Development block grants where communities fail to provide certain protections for tenants threatened by condo-conversions and other housing is in inadequate supply.

It is a complex bill requiring close study. Congress should get on with the task. Apartment renters, wherever they live, should not be left defenseless against condo profiteers.

# Lifestyle

12—The Evening News, Saturday, Feb. 2, 1979

## Apartment dweller's nightmare: 'going condo'

By BARBARA VARRO

Chicago (UPI)—"Now, Samantha," the psychotherapist said in a soothing, low voice, "tell me exactly what is bothering you."

"I constantly feel jittery," Samantha told him. "I can't eat and I have difficulty concentrating at work. I also have recurring nightmares in which I'm being chased by a monster. I run as fast as I can, but the monster keeps gaining on me. Then, just as he lunges at me, I wake up."

"Hmmm, very interesting," the doctor commented, while absently stroking his goatee. "By any chance, is your apartment building being converted into a condominium?"

"Why, yes, doctor," Samantha answered. "But how did you know that?"

"Simple deduction, my dear," the doctor replied. "Your symptoms are typical of others I've treated who were suffering from condo-dread. In clinical terms, it is known as conversion anxiety."

Psychiatrist Sheldon Greenberg of Chicago, where waves of condo conversions have swept over the city, believes that condominium conversions may be causing problems because it adds another stress and makes coping with modern life more difficult.

"It is one more factor that increases a person's sense of powerlessness," he said. "Add the condominium conversion issue to something like the rising cost of fuel, and it's not surprising that people feel like they have less and less control over their own lives. It's easy to understand why so many people feel like victims today."

"This conversion trend is like a disease," said Josephine Negri, 65, who has been uprooted from apartments twice in the last two years. "I'm still in shock from the second

Nagri, a widow, had been a cat-tailed renter of an apartment for 39 years. Then, last year, she received notification that her building was going condo; she didn't want to buy her apartment, which was selling for \$46,900.

"I could afford the down payment," she explained, "but the mortgage payments and maintenance fee would have been almost double what I had paid in rent per month. Besides, I don't want a mortgage at my age. I live on a fixed income like a lot of senior citizens. I'd rather keep whatever I have in stocks and savings and perhaps I'll be able to leave something to my children and grandchildren."

Although she felt angry and sad about leaving a place that was her comfortable home for nearly four decades, Negri found a satisfactory one-bedroom place and signed a lease last June after being assured that it would remain a rental building. But in August she was notified the building was going condo.

"So here I am," she said, with resignation apparent in her voice, "searching for an apartment again. I'm upset about it but what can I do? A lot of people my age are being forced from places they love. So why shouldn't they, and I, be angry?"

Mark Brunkin, 40, who recently purchased the apartment in which he had been a tenant for three years, had some anxious moments before plunking down his money.

"I questioned whether I wanted the responsibility of ownership," he said. "As a renter I was in a relatively carefree position. As an owner, on the other hand, I was relegating myself into a life of relative impoverishment. I questioned whether I was buying at the right time to buy, what with inflation and the shrinking dollar. And I reproached myself for not having bought something a few years ago."

Like many others in his building, he said, he was on edge when his building was in the process of conversion because he was disturbed

was worried about obtaining financing.

"Many renters find themselves

in an adversary role with the developer," he pointed out, "and they feel manipulated. A tenant who is not a buyer becomes the enemy to the developer. So tenants who may be potential buyers become distrustful to protect themselves."

While the primary concern of some people is whether they will be able to cope with a mortgage and other costs involved in condominium ownership, Greenberg believes that there are other issues involved.

"The key issue for older people," he said, "is a matter of displacement. Their apartment is their refuge and their identities are wrapped up in them. They have created boundaries within which they feel secure. When that territory is invaded, the space they created for themselves is compromised and they are displaced. The resulting sense of loss can be profound, leading to very real disorders such as depression."

In the case of younger people, Greenberg believes that the main issue is the feeling of losing control over their own lives. "Those in their 20s," he said, "finally feel independent from their parents. Then, suddenly, they are being persuaded to change their way of life by another authority figure — the condominium owner. As a result, some of them feel like they are returning to childhood dependency."

How will a person, young or old, cope with major or minor changes that mean the difference between maintaining emotional stability or not?

"A person has to see the problem of condominium conversion for what it is," Greenberg said. "It's merely a change, minor to some and major to others. As such, it can be challenging or devastating, depending on an individual's viewpoint."

His advice is to develop strategies for coping with such changes. "You can sit back and suffer, or you can do something constructive. Consider your options — finding a suitable rental apartment or figuring out how to finance a condominium. Or, do something like getting into

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 Hospital. Now I am home  
 & too weak to look.  
 This is the truth.

Mrs. Goldie Hirsch

Apt. 903

P.S. I am 83 years old

WHEN GOLDIE HIRSCH, 83, wrote this letter last Saturday, she was in the process of trying to find a new apartment in Center City. Her home, the Touraine apartments on Spruce st., is preparing for extensive renovations, and the building's owner, Robert Sheridan, is trying to vacate the high-rise by the start of work in May.

At first Mrs. Hirsch aligned herself with tenants fighting the new owner's plans. Later she set out to find a new home before the May date.

On Monday afternoon, reportedly while out looking for that new home, Mrs. Hirsch suffered her second heart attack, at 14th and Locust sts. She died a short while later at Graduate Hospital.

Certainly, elderly people die of heart disease every day, regardless of their housing situations. But Touraine tenants point to Mrs. Hirsch's letter and its description of the stress the upheaval at the apartment building caused her, and say they have no doubt about what at least contributed to her death.



HIRSCH

photo by Dennis Caporale



Wednesday, September 19, 1979

## The Philadelphia Inquirer





The Bulletin Thursday, May 15, 1980

# Condominium lobby flexing new muscle

By PHILIP LENTZ  
Of The Bulletin Staff

When a state legislative committee last week stripped several key pro-tenant amendments from a bill regulating the construction, sale and conversion of condominiums, no one was surprised.

After all, the pro-condominium forces had stirred some of Barterburg's most influential lobbyists.

Builders and real estate men had contributed to both the Democratic and Republican campaign committees as well as to individual legislators.

And the six-member legislative committee itself, pro-tenant forces believe, was stacked against them.

"You had the understanding before the committee ever sat that anything tenant-oriented was going to be (defeated) 5 to 1," said Rep. Joseph Rocks (R-Phila.), who sponsored the tenant amendments.

In fact, the committee defeated all the amendments by a 5-1 vote.

The condominium-conversion boom hit the Philadelphia area last year and some tenants — afraid of being forced out of their apartments — quickly besieged politicians for help.

They won the initial skirmishes. Last September, they persuaded Philadelphia City Council to put an 18-month moratorium on condominium conversions.

In January, they prevailed on the state House of Representatives to amend the condominium bill to permit the city and other municipalities the "local option" to pass condominium ordinances tougher than the state law. Without that permitting the city's moratorium would be wiped out when the bill becomes law.



But then the developers — dominated by Chicago-based condominium converters investing in the Philadelphia area — fought back, hiring lobbyists as well as several top lawyers in Philadelphia. Their efforts paid off. On May 6, the committee deleted the local-option amendment, giving them the victory they sought.

The bill still must be approved by both the Senate and the House and some tenant supporters still talk of blocking it. But most admit that this round, at least, has been lost.

"The big-money interests beat the little people on this issue," said Allen J. Beckman, the chief tenant spokesman as head of the Council of Tenants Associations of Southeastern Pennsylvania.

The pro-tenant forces were particularly upset with the makeup of the conference committee. The panel — three members from each chamber — was appointed by legislative leaders to work out differences between Senate and House versions of the bill.

Although several Philadelphia-area legislators asked to be named, only one was chosen. Instead, the panel was dominated by pro-business and rural legislators. In fact, two of the three House members had voted against the key pro-tenant amendments in the House.

The leaders deny they were swayed by the developers in appointing the committee members.

House Speaker E. Jack Selzer (R-Lebanon) said he chose members

Please Turn to Page 4

## Condo backers assemble high-powered forces

*Continued from First Page*  
who were "knowledgeable in the field."

Senate Minority Leader Henry G. Hager (R-Lycorning) said he picked Sen. William J. Moore (R-Perry), whose constituency is mostly rural, because "I wanted someone to take the whole state view, not just the Philadelphia view."

"They (legislative leaders) were philosophically comfortable with the people they chose," said Thomas F. Previc, the Harrisburg lobbyist hired by Beckman to argue the tenant cause.

If the developers' influence on the selection of the committee is open to question, their financial largess is not. Reporting requirements for lobbyists are loose and often ignored. But campaign contributions must be reported.

According to preselection reports, Sen. James A. Ransauvelt (D-Allentown), chairman of the conference committee, received \$200 from the political action committee (PAC) of the Pennsylvania Builders Association, \$200 from the Pennsylvania Real Estate Association Political Action Committee and \$500 from the consulting firm of Kline & Knopf, which is headed by former Lt. Gov. Ernest P. Kline, who lobbied for one of the Chicago converters.

Moore received a \$100 contribution from the builders' political action committee.

Overall, the builders donated \$18,700 to Republican and Democratic campaign committees, while the real estate political action committee gave \$5,943.

But the key to the condominium battle was the lobbyists themselves.

Virtually every condominium developer has his own and one lobbyist actually pulled out because the field was too crowded. "Overkill," he called it.

The major lobbyists, most of them anti-tenant, are:

- Kline, who represents Ansett-InVSCO Corp. of Chicago.

- INVSCO, in converting a Baltimore apartment house and the Georgetown complex in Lower Gwynedd Township to condominiums.

- Stephen R. Wojcik, a former Philadelphia legislator, who is working for Jack W. Blumenthal & Co. of Philadelphia. Blumenthal is the developer for Penn's Landing, where condominiums are planned.

- George B. Wolff, who represents Society Hill Associates, a Chicago-based partnership, which is converting Society Hill Towers and Hopkinson House in center-city Philadelphia.

- Ralph S. Snyder, a former deputy state attorney general, who is representing Robert Sheridan & Partners, a Chicago-based firm. Sheridan is converting the Dorchester on Rittenhouse Square, Philadelphia; Sutton Terrace in Lower Merion, and Park City West in West Philadelphia.

- Ralph D. Tive, a Harrisburg lobbyist, who also represented Sheridan until March 6 when he quit because the field was too crowded.

- Don Payne, lobbyist for the Pennsylvania Builders Association, of Frederick C. Brown, lobbyist for the Pennsylvania Association of Realtors.

- Previc, who represented the tenants for Beckman.

In addition, two Philadelphia lawyers worked behind the scenes for the condominium forces, although they are not registered lobbyists:

- James A. Rosenzweig of the firm of Wolf Block Schorr & Seils-Cohen, which is representing Society Hill Associates. Rosenzweig said he was not working for Society Hill Associates, but rather in his role as chairman of the Pennsylvania Bar Association's condominium committee.

- Ronald B. Glaser, a recognized expert on condominium law with the firm of Cohen Shapiro Peltzer Shiekman & Cohen, which is also representing Sheridan.

Mr. ROSENTHAL. Thank you both for very articulate, meaningful and enlightening statements.

I have a few questions and then will continue with my colleagues.

Mr. Friedman, tell us again what the cost to you, what your rent is and has been and what the cost is to you taking into account the underlying mortgage at the Promenade, and what cash downpayment there would be.

Mr. FRIEDMAN. The figure that I quoted was the rental that I was paying in July, \$456. Since February 1, I have been paying \$489. The figure that I gave you for a conversion was based upon my putting roughly 15 percent down. The amount would come to roughly \$1,200. That would include—

Mr. ROSENTHAL. What amount would come to \$1,200?

Mr. FRIEDMAN. Per month.

Mr. ROSENTHAL. Downpayment?

Mr. FRIEDMAN. No.

Mr. ROSENTHAL. You are going too fast for me.

Mr. FRIEDMAN. I am sorry.

Mr. ROSENTHAL. The price you had been paying for the apartment was \$456?

Mr. FRIEDMAN. Correct.

Mr. ROSENTHAL. Then it increased to \$489?

Mr. FRIEDMAN. Right.

Mr. ROSENTHAL. What would be the selling price of your unit? What would you have to pay for that unit?

Mr. FRIEDMAN. \$104,000.

Mr. ROSENTHAL. How large a unit is it?

Mr. FRIEDMAN. It is a one-bedroom, one-bath apartment.

Mr. ROSENTHAL. One bedroom, one bath, \$104,000?

Mr. FRIEDMAN. That's right.

Mr. ROSENTHAL. And how much cash would you need to make the deal?

Mr. FRIEDMAN. Roughly \$15,000.

Mr. ROSENTHAL. And what would the monthly payment be?

Mr. FRIEDMAN. Roughly \$1,200.

Mr. ROSENTHAL. Does that include the underlying mortgage?

Mr. FRIEDMAN. That includes the underlying mortgage, finance charges and the estimate based on their 1979 figure of what the maintenance cost would be.

Mr. ROSENTHAL. You don't think it is such a good deal to go from \$489 a month to \$1,200 a month?

Mr. FRIEDMAN. Frankly, no.

Mr. ROSENTHAL. Why don't you like that arrangement for a one-bedroom apartment?

Mr. FRIEDMAN. I think it is ludicrous. I think it speaks for itself. I don't know of anybody except the extremely wealthy people, people with really high incomes, who could afford that type. That is \$14,400 a year just for the privilege of staying in a one-bedroom, one-bath apartment.

Mr. ROSENTHAL. You referred during the course of your testimony to the voluntary assistance program. That is apparently an Invsco program to give leases to elderly and handicapped.

We have been told in our preliminary investigation by the Invsco folks that the program is administered by a committee of people who buy and that Invsco employees never serve on the committee.

You say the committee was nonexistent and that Invsco employees made decisions.

What is the situation?

Mr. FRIEDMAN. Applications were submitted to a small office which housed primarily Anne Solator. I never saw Dave Kaplan. I wouldn't know him if he walked in the office.

Mr. ROSENTHAL. Are any of these people here today?

Mr. FRIEDMAN. I don't know if they are or not. I wouldn't know Anne Solator or David Kaplan if I saw them. But our tenants were required to go to that office and submit their application.

Now, this took place in August. I think the record will show that between July and September there were no closings certainly at Washington Federal who were handling the financing. If there were closings, and if there were purchases, the purchases were by insiders of Invsco.

There were at least five contracts that we know about from the lawsuit that existed of sales that were made early in July. These were sales made to Invsco insiders.

Mr. ROSENTHAL. What do you mean by insiders?

Mr. FRIEDMAN. I have to go back a moment to some legislation that was passed by our county council. There was an attempted moratorium for 9 months. At the time that moratorium was passed it was retroactive to the day before the announcement of the conversion to co-op.

Invsco attempted to get that moratorium set aside as to our apartment, the Promenade Apartment. Their argument was that there were five contracts already signed for purchase in this building and, therefore, the retroactive effect would be unconstitutional.

Mr. ROSENTHAL. I see. They went into court, tried to say that they were beyond the bounds of that county ordinance, saying that it would be ex post facto for them because there had been five contracts made, presumably leaving the court with the impression that these were good faith open market contracts, and you are saying that they were sold to insiders?

Mr. FRIEDMAN. The affidavits indicated that at least one was sold to an attorney for Invsco.

Mr. ROSENTHAL. Do you remember the name?

Mr. FRIEDMAN. No, I don't, sir. I am sorry.

Mr. ROSENTHAL. And the other four?

Mr. FRIEDMAN. And the other four, one I believe was the sales person for Invsco and one to someone who is friendly with the people who are active in Invsco. All of the affidavits are a matter of record in that.

Mr. ROSENTHAL. They succeeded, though, in that lawsuit, didn't they?

Mr. FRIEDMAN. Succeeded only in the sense the case is up on appeal, joined with appeal of a lawsuit the tenants' association also has pending.

Mr. ROSENTHAL. I am curious. Do you know the names of those, what you contend to be insiders?

**Mr. FRIEDMAN.** No, I don't. I don't have the names. I can get them.

**Mr. ROSENTHAL.** Do you remember the name of the law firm that represented them in that lawsuit?

**Mr. FRIEDMAN.** No, I do not.

**Mr. ROSENTHAL.** That would be important to this committee.

**Mr. FRIEDMAN.** I will be glad to submit that for you.

[The information follows:]

IN THE CIRCUIT COURT  
FOR MONTGOMERY COUNTY, MARYLAND

PROMENADE TOWERS MUTUAL	)
HOUSING CORPORATION, et al.	)
	)
Plaintiffs,	)
	)
v.	)
	)
MONTGOMERY COUNTY, MARYLAND, et al.	)
	)
Defendants.	)

AFFIDAVIT

COUNTY OF MONTGOMERY	)	
	)	ss:
STATE OF MARYLAND	)	

Affidavit of Carolyn E. Woods

I, Carolyn E. Woods, being duly sworn, do hereby state as follows:

1. I am a tenant at Promenade Apartments, 5225 Pooks Hill Road, Bethesda, Maryland 20014. I reside at apartment No. 1312N, under a lease in my name which began on January 1, 1980.

2. On July 11, 1980, I, together with Richard L. Spire II, entered into a Purchase Agreement with Promenade Enterprises Limited Partnership to purchase 596 shares of stock in the Promenade Towers Mutual Housing Corporation for \$81,552. As part of this Pruchase Agreement, I agreed to enter into an Occupancy Agreement for said unit which

I presently occupy. I paid a \$1,000 deposit to Promenade Enterprises Limited Partnership.

3. I was informed at the time I entered into the Purchase Agreement, that as a current tenant of the Promenade Apartments, I received a substantial discount in the purchase price for shares of Housing Corporation stock as compared to the price which would be offered to non-tenants.

4. I was informed on or about the time I entered into the Purchase Agreement that a Property Report would be made available to me describing the condition of the building, the background of the relevant transactions, and my rights and obligations under the Purchase Agreement. I was informed that this Property Report would contain copies of all the relevant legal documents concerning the Housing Corporation. By the terms of my Purchase Agreement, I had the right to cancel the Purchase Agreement within 7 days after receipt of the Property Report for any reason and with full refund of deposit.

5. On July 14, 1980, I paid the remainder of the purchase price for my shares of Housing Corporation stock and received those shares.

6. I desire to have the pending conversion of Promenade Apartments to a cooperative completed, so that I can participate as an occupant-shareholder with my neighbors



in a cooperative corporation running the Promenade  
Apartments.

Carolyn E. Woods  
Carolyn E. Woods

Subscribed and sworn before me this 22nd day of

July, 1980.

Carl C. Williams  
Notary Public

My commission expires on 7-1-82.

IN THE CIRCUIT COURT  
FOR MONTGOMERY COUNTY, MARYLAND

PROMENADE TOWERS MUTUAL  
HOUSING CORPORATION, et al.

Plaintiffs,

v.

MONTGOMERY COUNTY, MARYLAND, et al.

Defendants.

AFFIDAVIT

COUNTY OF MONTGOMERY    )  
                                  )    ss:  
STATE OF MARYLAND        )

Affidavit of Rosemary L. Pierson

I, Rosemary L. Pierson, being duly sworn, do hereby  
state as follows:

1. I am a tenant at Promenade Apartments, 5225  
Pooks Hill Road, Bethesda, Maryland 20014. I reside at  
apartment No. 801S, under a lease in my name.

2. On July 1, 1980, I entered into a Purchase  
Agreement with Promenade Enterprises Limited Partnership  
to purchase 596 shares of stock in the Promenade Towers  
Mutual Housing Corporation for \$81,552. As part of this  
Purchase Agreement, I agreed to enter into an Occupancy  
Agreement for said unit which I presently occupy. I

paid a \$1,000 deposit to Promenade Enterprises Limited Partnership.

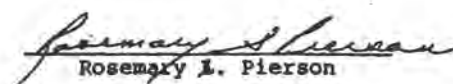
3. I was informed at the time I entered into the Purchase Agreement, that as a current tenant of the Promenade Apartments, I received a substantial discount in the purchase price for shares of Housing Corporation stock as compared to the price which would be offered to non-tenants.

4. I was informed on or about the time I entered into the Purchase Agreement that a Property Report would be made available to me describing the condition of the building, the background of the relevant transactions, and my rights and obligations under the Purchase Agreement. I was informed that this Property Report would contain copies of all the relevant legal documents concerning the Housing Corporation. By the terms of my Purchase Agreement, I had the right to cancel the Purchase Agreement within 7 days after receipt of the Property Report for any reason and with full refund of deposit.

5. On July 16, 1980, I paid the remainder of the purchase price for my shares of Housing Corporation stock and received those shares.

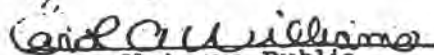
6. I desire to have the pending conversion of Promenade Apartments to a cooperative completed, so that I can participate as an occupant-shareholder with my neighbors

in a cooperative corporation running the Promenade  
Apartments.

  
Rosemary L. Pierson

Subscribed and sworn before me this 22nd day of

July, 1980.

  
Notary Public

My commission expires on 7-1-82.

PROMENADE TOWERS MUTUAL  
HOUSING CORPORATION, et al.

Plaintiffs,

v.

MONTGOMERY COUNTY, MARYLAND, et al.

Defendants.

COUNTY OF MONTGOMERY )  
 ) ss:  
STATE OF MARYLAND )

I, James M. Keane, being duly sworn, do state  
as follows:

2. As of 6:00 p.m. on July 22, 1980, sales representatives of Promenade Enterprises had met with approximately 575 tenants of Promenade Apartments and non-tenants who wished to learn information about the purchase of shares in the Housing Corporation.

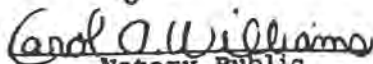
3. As of 6:00 p.m. on July 22, 1980, 26 <sup>11</sup>/<sub>11</sub> tenants of Promenade Apartments had entered into Purchase Agreements for Housing Corporation stock and 35 <sup>11</sup>/<sub>11</sub> non-tenants had entered into Purchase Agreements. The non-tenants will only be permitted to close on their shares if they take occupancy of vacant apartments as apartments are subsequently vacated by current tenants who choose not to become shareholders.

4. As of 6 p.m. on July 22, 1980, 5 <sup>11</sup>/<sub>11</sub> purchasers of Housing Corporation stock had paid the full purchase price and received their shares. 2,863 <sup>11</sup>/<sub>11</sub> shares have been transferred.

  
James W. Keane

Subscribed and sworn before me this 22<sup>nd</sup> day of

July, 1980.

  
Notary Public

My commission expires on 7-1-82.

PROMENADE TOWERS MUTUAL )  
HOUSING CORPORATION, et al. )  
 )  
Plaintiffs, )  
 )  
v. )  
 )  
MONTGOMERY COUNTY, MARYLAND, et al. )  
 )  
Defendants. )

COUNTY OF MONTGOMERY )  
 ) ss:  
STATE OF MARYLAND )

I, Nick Menegas, being duly sworn, do hereby state  
as follows:

2. On June 30, 1980, I entered into a Purchase Agreement with Promenade Enterprises Limited Partnership to purchase 548 shares of stock in the Promenade Towers Mutual Housing Corporation for \$75,076. As part of this Purchase Agreement, I agreed to enter into an Occupancy Agreement for said unit which I presently occupy. I



paid a \$1,000 deposit to Promenade Enterprises Limited Partnership.

3. I was informed at the time I entered into the Purchase Agreement, that as a current tenant of the Promenade Apartments, I received a substantial discount in the purchase price for shares of Housing Corporation stock as compared to the price which would be offered to non-tenants.

4. I was informed on or about the time I entered into the Purchase Agreement that a Property Report would be made available to me describing the condition of the building, the background of the relevant transactions, and my rights and obligations under the Purchase Agreement. I was informed that this Property Report would contain copies of all the relevant legal documents concerning the Housing Corporation. By the terms of my Purchase Agreement, I had the right to cancel the Purchase Agreement within 7 days after receipt of the Property Report for any reason and with full refund of deposit.

5. On July 15, 1980, I paid the remainder of the purchase price for my shares of Housing Corporation stock and received those shares.

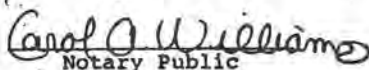
6. I desire to have the pending conversion of Promenade Apartments to a cooperative completed, so that I can participate as an occupant-shareholder with my neighbors

in a cooperative corporation running the Promenade  
Apartments.

  
Nick Menegas

Subscribed and sworn before me this 22nd day of

July, 1980.

  
Notary Public

My commission expires on 7-1-82.

Mr. ROSENTHAL. We are interested in names. We are interested in factual information. You are a lawyer?

Mr. FRIEDMAN. Yes, sir.

Mr. ROSENTHAL. You have been a lawyer for a few years?

Mr. FRIEDMAN. I started practicing in 1940 but I did not practice for about 30 years. I have gone back to it now.

Mr. ROSENTHAL. What could you tell us in nonprepared terms about your feelings and experience toward American Invsco and their activity here?

Mr. FRIEDMAN. I think the thing that hurts most, to me, is the deceit, never being able to get a straight answer immediately from anybody.

I was very excited when I got the first sheet of paper which said \$81,000 for your apartment and there are resident discounts. That is a kind of exciting thing for somebody who—I have never owned anything—once came close, but never owned anything; always rented.

I thought this was an opportunity to maybe buy something. But when I found out \$81,000 was not really the price, that there was an additional \$23,000, the stories that I heard about Invsco and the rumors I heard suddenly came true to me.

This is my own personal reaction.

The other thing is under our former landlord we had a little contract bridge game, duplicate game. Most of it was populated by widows and people on fixed incomes.

Early in July after the conversion and the notice, you had 10 days in which to do this, or 9 days to do this—you had to do this to get the additional discounts—I saw some of those women literally crying in the hallway, women who had been independent.

The feeling I had then was one of there has to be some other way to do this kind of thing.

Since I have been active in the tenants' association I have found out what actually we are being offered.

Those are some of the things that upset me. The other thing is I was 30 years in business. It seems ridiculous to offer for sale shares in a corporation which there is no financial disclosure, where you don't have an opportunity to inspect yourself the physical layout of the building.

If you are going to live, and you are going to buy shares as a right of occupancy, you should be able to go in with an engineer and make an inspection of your own, look the place over and see what kind of shape it is in.

We know the hot water is interrupted. We know the elevators go out of service regularly.

There has to be some way of telling—if you are going to buy and you are going to ask people to make this big investment—that there is something that you can depend upon. Some forums put aside, some reserve.

The more I went into it, the more I realized that this is just an unjust way of doing business, that there is no disclosure and you are being told "Buy or get out. Buy it on my terms or get out."

Mr. ROSENTHAL. You don't find anything wrong with Landow making \$25 million on the deal, do you? It is a free country; right?

Mr. FRIEDMAN. I don't find anything wrong if a man can find a way to make that kind of money. He built the building. He took the risk. He ran it as a rental unit and if he had an opportunity to sell it at a profit, I think that is a good American system, but what I have objection to is these people came in and spent \$50 million for a building that was in existence; they want to turn it over for \$100 million.

They are going to leave our county in this instance without ever paying a transfer tax, without ever paying a State tax, a documentation, a registering tax.

Hopefully for them they hope to clean this up in a few years in which case they will have taken this money and left without contributing anything.

Mr. ROSENTHAL. They will have left a few dollars downtown with some people. A few.

Mr. FRIEDMAN. I am not aware of any that would have been left.

Mr. ROSENTHAL. I am sure they hired counsel and other interested parties.

Mr. FRIEDMAN. That I am sure of. I have been aware of that for some time.

There is one other thing, sir. The fact that they are offering this to investors is one of the things that bothers me considerably because of the effect it has upon inflation.

I think that if we could find a way to say to people who are purchasing in a converted building that you won't get the advantages of the capital gains tax and you won't get the advantage of writing off interest and taxes on your tax, we could slow down the number of people who are buying as investors.

My objection is there should be more housing for people. That \$50 million they spent could well have been spent in the same area building a \$50 million apartment building and providing additional housing for people.

Mr. ROSENTHAL. You could have done that easily because Washington Federal put up \$30 million and Chase Manhattan Bank put up \$20 million and there is the \$50 million right there. It would have been simple, right.

Mr. FRIEDMAN. They could have done better. Their loan at Chase Manhattan is larger than 22.

Mr. ROSENTHAL. It may have been 22.

Chase Manhattan will testify and tell us why they thought this was such a good deal.

Mr. FRIEDMAN. There is no contribution to a community in conversion. Certainly in a little community like Bethesda where, as you heard today, it is important for some people to be close to NIH, Bethesda Naval Hospital. We have folks in the building who are career people with those institutions. It is important for them to be close by.

Mr. ROSENTHAL. Mr. Beckman, you told us there was some Invsco people here you recognized. Could you tell us who they are?

Mr. BECKMAN. Yes.

Mr. ROSENTHAL. It would be nice to meet them.

Mr. BECKMAN. I recognize them because they were in Judge Davenport's courtroom during the *Beaver Hill* case. Mr. Ed Woolery, seated in the second row back.

Mr. ROSENTHAL. You are from Beaver Hill?

Mr. WOOLERY. I am Ed Woolery.

Mr. ROSENTHAL. Nice to have you here.

Who else?

Mr. BECKMAN. I have been told the name of the individual—Nick Mason—who I don't particularly recognize. However, next to him the second person over from Mr. Woolery, a gentleman whose name I don't recognize, was also present at these court proceedings.

Again, I don't know what his name is.

Mr. ROSENTHAL. Are you two gentlemen at the end of that second row Invsco folks, part of the Invsco family?

How many Invsco people do we have here not counting the lawyers on the other side of the room? How many Invsco employees or associates do we have here? Could all of you stand, please?

[No response.]

Mr. ROSENTHAL. I know there is one. He already stood. Are there any other Invsco people here?

In the light suit. Are you one?

Mr. NICKELSPORN. No. This is Mr. Nick Mason, also known as Nicholas Menegas.

Mr. ROSENTHAL. He doesn't stand up when you ask him to.

Mr. NICKELSPORN. He doesn't talk, either.

Mr. ROSENTHAL. Can he hear me?

Mr. MASON. Very well, sir.

Mr. ROSENTHAL. Are there any other Invsco people that want to stand up?

Mr. VAVOULIS. Do you have questions you would like to ask me, Mr. Congressman?

Mr. ROSENTHAL. I want to know who is here.

Are you an Invsco associate?

Mr. VAVOULIS. I am an Invsco associate.

Mr. ROSENTHAL. What is your name?

Mr. VAVOULIS. George Vavoulis.

Mr. ROSENTHAL. Are you from Chicago?

Mr. VAVOULIS. I am from St. Paul, Minn.

Mr. ROSENTHAL. Pardon?

Mr. VAVOULIS. I am from St. Paul, Minn.

Mr. ROSENTHAL. You are the former mayor of St. Paul?

Mr. VAVOULIS. That's correct.

Mr. ROSENTHAL. Nice to meet you, Mr. Mayor.

Mr. VAVOULIS. I would also like an opportunity to respond to two or three statements.

Mr. ROSENTHAL. You will have that on Wednesday. The reason I wanted to know who is here is so we could understand how many of you who may testify on Wednesday had an opportunity to hear today's testimony direct or whether you had to see it on either one of the two videotapes we permitted to run here.

Mr. VAVOULIS. I am proud to be here.

Mr. ROSENTHAL. We are delighted. We are delighted people from St. Paul are making their mark in the real estate world.

Mr. VAVOULIS. I made it in the other world as well.

Mr. ROSENTHAL. I am aware of that. We are very proud of you for that.

Mr. Daub?

Mr. DAUB. Thank you.

How many square feet, Mr. Friedman, is this apartment you talked about which was to be converted? How many square feet?

Mr. FRIEDMAN. I am not sure, but I would say about 900.

Mr. DAUB. Nine hundred square feet?

Mr. FRIEDMAN. Possibly 1,000.

Mr. DAUB. Could it have been 1,000?

Mr. FRIEDMAN. Yes.

Mr. DAUB. Somewhere in that range?

Mr. FRIEDMAN. Yes.

Mr. DAUB. What do you suppose made up the \$23,000 difference you talked about a little while ago? At least allegedly.

Mr. FRIEDMAN. It was a mortgage that the developer had assumed from our prior owner. The mortgage he assumed was—the original mortgage of 8½ percent for \$23 million at Metropolitan Life Insurance Co. The mortgage now is a 14-percent mortgage. It can never be paid off. It is a 25-year mortgage. The interest on the mortgage cannot be reduced.

At periodic intervals it will be reviewed and if the going interest rate is higher it will go up, but it will never go less than 14 percent.

Mr. DAUB. You said \$23,000?

Mr. FRIEDMAN. \$23 million.

Mr. DAUB. I couldn't understand when you were saying \$85,000 was going to be the potential price of ownership that they mailed you when you first got your notice—then you said there was an increase of \$23,000 which I was trying to compute to 100-some thousand that might have been your original cost. That is not what you were trying to say?

Mr. FRIEDMAN. No; \$23 million underlying mortgage.

Mr. DAUB. How did that affect an increase over and above your original notice?

Mr. FRIEDMAN. They sent out a notice which gave your square footage. It gave the number of shares you were to acquire and it listed the price that you would pay for your apartment. In this case it was \$81,000, a little over.

But upon inquiry the price was no longer \$81,000 but it included a \$23,000 underlying mortgage.

Mr. DAUB. That is what I am getting at. You said \$23,000.

Mr. FRIEDMAN. That is \$23,000 mortgage, my share.

Mr. DAUB. That was your share of the \$23 million?

Mr. FRIEDMAN. Correct.

Mr. DAUB. That was not explained in the first letter to you?

Mr. FRIEDMAN. No, sir.

Mr. DAUB. Can we have a copy of that letter?

Mr. FRIEDMAN. I have appended it as a group of exhibits.

Mr. DAUB. Now, are there any people, to your knowledge, since you represent the tenants' association, who are members or were members of the building or the association who have a different point of view than yours, a minority of people who may, if heard, testify to the contrary?

Mr. FRIEDMAN. I am sure. Sometime in early December due to a negotiating committee of prior officers of our board an offer was



brought to the attention of our board and eventually to a general meeting of our association.

At that time 41 people voted to accept the offer of Invsco and 144 voted against it. The next day or a day or so later a letter went out saying we of the 144 were the minority, the 41 were the majority.

This is some of the semantics of the management of Invsco.

However, there are people who have been members of our board. I believe that they have bought and I am sure they are happy with their purchase. One of the reasons they may be very happy is that under the arrangement of purchase they don't have to pay a maintenance or co-op fee until January 1982.

I would like to know, come January 1982, how happy they will be when that new fee hits them.

Mr. DAUB. Do you know if any of those people might be present in the room?

Mr. FRIEDMAN. There is the past president of our association, Mrs. Burgess.

Mr. DAUB. Can we get their names for the record?

Mr. NICKELSPORN. James Nickelsporn. I was the first president. I did purchase, but I didn't purchase with that in mind. I purchased for a few other reasons.

I would agree with Mr. Friedman. I think most that went on is my concern as well, and I would not be at all adverse to derivative stockholder suit which is what I anticipate doing.

Mr. DREWYER. I have never been a member of Mr. Friedman's group. However, I am a member of a recognized homeowners' association. I have my testimony in hand. I would like to speak as a pleased buyer at the Promenade.

Mr. DAUB. Could we have your name again?

Mr. DREWYER. Dennis Drewyer.

Mr. DAUB. Your address?

Mr. DREWYER. 717 South Promenade, 5225 Pooks Hill Road.

Mr. DAUB. We can get your testimony later on if we have the need for it; is that correct?

Mr. DREWYER. Yes.

Mr. DAUB. What was your address?

Mr. DREWYER. I purchased.

Mr. DAUB. What is your address?

Mr. DREWYER. 5225 Pooks Hill Road.

Mr. DAUB. The gentleman over here, your name and address?

Mr. EIG. Herman Eig. I live now at the Promenade apartments. I have not yet bought, but I intend to but not for the reason Mr. Friedman specified, that for the next year I will be allowed the privilege of not paying any fees. I bought because in my opinion it was the lesser of two evils.

I had no place to go and what was available to me was not what I had in mind.

Mr. ROSENTHAL. What is your address in Promenade?

Mr. EIG. 5225 Pooks Hill Road. That is the Promenade. My apartment number is 404 South.

Mr. DAUB. Mr. Beckman, on page 7 of your testimony can you document your reference to excessive profits?



Mr. BECKMAN. I think the documentation begins with the layout of any example and almost any of the conversions in American Invsco has been involved with and other converters as well.

When you take a building—I will give a Beaver Hill example—about 2½ years ago the former owner of Beaver Hill went to court because he thought the property was incorrectly assessed. He felt that its market value was something less than \$9 million.

Mr. DAUB. I am looking at page 7. Do you have your testimony in front of you?

Mr. BECKMAN. Yes, I do.

Mr. DAUB. You say, "I don't question anybody's right to make a profit. I don't question the basic principle an individual should be permitted to dispose of their property in any way they see fit."

However, you say, "When excessive profits are made with questionable marketing and financial procedures"—what I want to know is: What do you mean there by excessive profits? In relation to what?

Mr. BECKMAN. In relation to the trauma and the social harm that is done by these conversions; if I could give a short example. The guy who created the hoolahoop undoubtedly made a bloody fortune, but he did not hurt anybody while he was doing it.

Now, in this situation we have people who are making bloody fortunes but they are harming people while they are doing it.

Mr. DAUB. How much is too much?

Mr. BECKMAN. I think that may be for this body to decide. I think certainly taking a piece of property that is worth \$9 million one day and it comes out of the conversion mill at \$36 million, and causing the kind of harm it causes, is much too much.

Mr. DAUB. I might well agree with you. What we are trying to inquire into, though, is how we determine by Federal law how much is too much if we are to legislate.

Mr. BECKMAN. You will not have to do that.

Mr. DAUB. Why is that?

Mr. BECKMAN. The first thing you have to do is slow them down. That is what they like the least. Whenever they feel their momentum may be halted or interrupted in any way, that is when they deal.

Mr. DAUB. Let me finish with you.

So you are saying you personally are not so interested in trying to legislate from that direction?

Mr. BECKMAN. I don't think you should. I also think it is possible you may not have the constitutional right to do that.

Mr. DAUB. That is the same as you and I not wanting a law setting our fees to determine whether we are making too much profit or not.

Mr. BECKMAN. I think that is reasonable.

Mr. DAUB. Now, if you don't want to approach it in that way, you say you just want to slow them down. How should Federal law be constructed, in your judgment, to attain the ends you think appropriate? Let me go at it this way—are you aware of any city or county or State laws across the country that are attempting to do what you suggest we do on a Federal basis?

Mr. BECKMAN. Yes. The one that comes closest to it is a piece of legislation drafted today by an assemblyman in New Jersey named

Byron Baer. I think it has been introduced in the New Jersey State Assembly. It does not have any chance of passing. But it does incorporate most of the important ideas and most of the ideas that I think this committee should be primarily concerned with.

Mr. DAUB. So you think that is constructed to—

Mr. BECKMAN. Listen, if these people were required to put separate metering, separate meters in for their utilities—you are buying a house now. It is no longer a rental apartment. It is your house. You have a right to control your utilities. You don't want the person next door who uses their electricity constantly to be charged to you.

If you did that, if you said that building that is 17 or 25 or 40 years old must be brought up to current code—if you just say those two things, you could probably begin to disband your hearings.

Now, if you went on a little further and you required that they do things in a public manner rather than on a one and one back-room fashion—

Mr. DAUB. Are you suggesting—

Mr. BECKMAN. That would be the next step.

Mr. DAUB. Much like SEC's disclosure for stock?

Mr. BECKMAN. I don't know if it would have to go that far. For instance, at Beaver Hill, Mr. Byrnes mentioned there are three buildings in that complex. They notified the people in all three buildings, but then with nothing in writing went about converting just one building so the people in the other two buildings were utterly confused, but confusion and chaos is part of the way they maintain the momentum; that along with going up to a person who strongly objects, a little older person, and saying, "Don't worry, Mrs. Jones, your apartment is already sold."

Well, I am sure that the testimony you hear on Wednesday, Mr. Woolery or somebody else will tell you, "Well, it is just the truth. We are helping these people out. We are getting investors to buy the apartment so they can continue to live there."

But listen to that statement closely. And you take a woman who has lived in that building for 16 years. That is not what she hears. She hears "They told me there is a State law. I get a 6-month right of first refusal. Now he tells me don't worry, it is already sold. My God, I better call my son, my nephew, my niece"—and so on and on—"and get the money together and buy this."

That is how they get and keep the momentum running.

Another example. When they started this conversation one of the first things they did was issue estimates of the property tax on an individual unit.

Well, we checked that. Mr. Byrnes checked that with the local tax assessor. He laughed and said, "That is crazy. That is less than half of what it will be." So Mr. Byrnes went back to Mr. Woolery and said this is what I have been told. Whatever the source was, the rumor was that the tax collector was crazy and was fired, which is a pretty difficult thing to do when you have an elected official, to just fire him.

And, coincidentally, it turned out to be exactly the truth.

Now, when they were pushed against the wall they raised the estimate, but not before many people were traumatized and major life-changing decisions were made based on that misrepresentation.

Mr. DAUB. What if we passed a Federal law overriding all city, county, and State prerogatives, building codes, fire codes, safety legislation, all these things that probably would get thrown out on their ear in the Supreme Court? How would you enforce that law at the Federal level?

Mr. BECKMAN. I wouldn't pass that law for the reason I mentioned during my testimony. The problem in Poughkeepsie is a lot different than the problem in Pittsburgh or Philadelphia.

There is no way that you can do that. The best that you can do is establish minimum requirements for disclosure for fair, good faith dealing, with penalties, Federal penalties.

Especially where you can get State lines involved, for open, blatant mistakes, and at least present the threat to these people they have to be a little more careful.

Mr. DAUB. Like in the franchising area?

Mr. BECKMAN. I think perhaps quite similar to that. If you could find a way to establish a court of first resort, that would be super. And the reason is simple. Tenants don't have money to put together in funds to hire lawyers to press their actions in the court system.

Where are they to go? Most of them will say, "Look, it would cost too much money to fight it. It is the wave of the future. Look at the momentum."

I would like, if you could do it, to get the salaries of some of these "salespeople" because I think they are astronomical and if you could look further and find out how much they own—I mean one of their representatives who I will not name did mention to me that he intended to retire in a couple of years. And that individual's age was far from anything that I would term retirement age. But I believe it. I believe it because they are the ones who get in with the inside information and get out quick and leave everybody else holding the bag.

Just like in Philadelphia, where a number of people who really weren't aware of all the consequences did buy units in some of the buildings that first went and then found out that it is not too easy to unload them. It is like owning a Miro. If you own a Miro you can't stand on the street corner and hawk it. You have to find a buyer for it. If you find the right buyer, you will get your money.

Mr. DAUB. Thank you. You have been very illustrative and I appreciate your being here today.

Mr. ROSENTHAL. Mr. Clinger?

Mr. CLINGER. Thank you, Mr. Chairman.

Following up on what Mr. Daub was discussing with you, Mr. Beckman, in your testimony you indicated that these problems are pretty parochial in nature. That is each situation has different variables and requires being addressed in a slightly different way or perhaps sometimes in a dramatically different way.

Mr. BECKMAN. Not exactly. The problems themselves are pretty standard. The stories you heard from different people here today did not vary much, and based on my experience they do not vary very much from market to market.

However, what does vary is the housing situation in a given area. Now, Alexandria, Va., might be very interested in increasing its tax base and they might decide we want to promote this. We

want or need to increase our tax base. Of course, I would suggest that they think about the fact that today they do not pick up the garbage from these high rise or garden apartments.

Somebody buys a unit for \$100,000, they want the garbage picked up and a lot of other municipal services, but that should be for the municipality to decide.

In Philadelphia you have the center city area which has about 25 buildings in it, and out of those 25 buildings, most of them are going the way of conversion. They are termed luxury apartments.

What people don't look far enough to see is, though, they are luxury with regard to location if you like center city and hospitals and culture; they do not necessarily get supported by luxury incomes.

You have a lot of proud people who just have one or two suits from Nan Duskin's and, as a result, just go out once or twice a week.

That is beside the point. The point is in the planning for housing in a community, they may want to consider exactly how much regulations they want to have.

From this body should be a minimal standard. There should be some procedure for enforcement. There should be some requirements of good faith dealing and beyond that it should be left to the local, not the State areas.

But the State agencies may make it impossible. We were just completely rooked in the State of Pennsylvania.

Mr. CLINGER. I can understand the political problems you have with getting something like this through the State. What I am having difficulty understanding is, given the different needs of the communities, why can't Philadelphia or Montgomery County impose the very kind of minimum standards that you are asking be imposed on a Federal level?

Mr. BECKMAN. Because of a big bugaboo—I think it is used from time to time here in Congress—and that is the word "uniform." You put "uniform" in front of anything and it is supposed to have a legislatively positive connotation. With regard to housing problems, it is sheer idiocy, in my point of view, because housing sizes vary so much from rural to suburban to urban and even within each of those subdivisions.

In the State of Pennsylvania that word "uniform" was the big thing. Let's keep it uniform.

Mr. CLINGER. You are saying you are prevented from doing this because there is a uniform—

Mr. BECKMAN. Sure. All the local legislation was thrown out of the window when the Uniform Condominium Act was passed. We have been preempted.

We had an 18-month moratorium to study the problem. When our city council passed that 18-month moratorium all the converters said that is ridiculous. They laughed and said it is unconstitutional. It will be knocked out next week. They never once challenged it. Never once.

Let me say I served on the city planning commission steering committee studying condo and co-op conversions. Our study that was mandated by that piece of council legislation continues to this day and happens to be in its 22d month.

It has not been completed, and it is being carried out by an agency that is sympathetic to tenants and a steering committee that if there were a vote to be held the tenants would probably prevail.

So even under the best circumstances it is not an easy task, to study the situation, to develop laws that are fair.

Mr. CLINGER. Do you have rent control in Philadelphia?

Mr. BECKMAN. No, we do not. As a matter of fact, contrary to the claims of the converters, if they want to see rent control—and believe me, I can't believe they give a darn—if they want to see rent control this is the best way to do it, because if my building on one side of the street used to rent for \$350 a month and now I have carrying charges, a mortgage, maintenance fee, special assessments, and monthly tax payments, that brings that up to \$1,200 or so, \$1,300 a month, and there is another building on the other side of the street that continues to rent, what do you think it is going to rent for? It is going to rent for something close to that \$1,300, or whatever it is—the double or triple amount, is my point. Maybe a little less because you have no equity.

It is going to raise the rents over there. They are going to raise a big hue and cry and then you will get rent control.

We in Philadelphia have never been in favor of rent control. It is our general opinion that is the best way to deplete housing. We don't want to do that. We want to keep it reasonable.

Mr. CLINGER. The argument is made that there are some sort of cosmic economic forces forcing or promoting conversion, and that we should be doing something with our tax policy to affect conversion—

Mr. BECKMAN. No question about that.

Mr. CLINGER [continuing]. Of rental properties.

Would you agree with that?

Mr. BECKMAN. Absolutely. As Mr. Friedman said, no one can blame the owner of a rental building with the headaches of a thousand different tenants and with his profit margin getting smaller and smaller today, especially because he has lost some of his ability to depreciate and so on.

Nobody can blame him for accepting this windfall.

Mr. CLINGER. That is perhaps of a higher priority. We should be addressing the problem of encouraging the construction of rental property because we are never really going to mitigate the conversion problem in the face of strong disincentives to provide rental housing.

Mr. BECKMAN. You have just touched the real problem, but that is the long-term problem, and in the meantime Goldie Hirsch and other people that you have seen here today are dying and being hurt no less than if they had been in a terrible accident or in a war somewhere; so, yes, I agree, sir, that you should look into that, but for the immediate future something has to be done to break the momentum.

Mr. CLINGER. I am very sensitive of the problem of Goldie Hirsch and others, but I am not convinced at this point at least, that passing a Federal law is going to prevent the sort of activity, that concerns us here.



How do we avoid the harassment, whatever has been going on, by just passing a law? I mean it seems to me that you are going to have to have much more local involvement.

Mr. BECKMAN. Yes, but that takes some time. If you place a moratorium on this for 3 years, that provides the time for a Federal study and for local studies to develop the regulations that will ultimately be required, and more importantly; Congressman, let me just say that I have been told by people in the industry, on the other side, in other words, that all of my carrying on, "Go ahead and do it because we are really getting out of this business anyway, it is all going to be over in 1983 or 1984, for one simple reason: used up the market." They have really used up the market.

Mr. CLINGER. Thank you.

Mr. ROSENTHAL. Mr. Hiler?

Mr. HILER. Thank you, Mr. Chairman.

I just have a couple of questions. I am fascinated that the seller has a legitimate right to sell at any price, but the buyer does not have a legitimate right to offer at any price.

Mr. BECKMAN. The buyer has absolutely no rights. It is take it or leave it, plain and simple, and, as a matter of fact—

Mr. HILER. I am talking about the gentleman who sells the 1,000-unit rental property today. You say you didn't blame him at all for selling, his profit margin is being squeezed. Apparently he has a legitimate right to sell that 1,000 units. But the buyer, on the other hand, somehow doesn't have a legitimate right.

Mr. BECKMAN. That is not what I said, Congressman. I said I can understand why he would, and if the law permitted it and I were in his position I guess I would do the same thing.

I could not just walk away from such a windfall. That is what I said, and that is what I meant.

Mr. HILER. So actually then what you are really saying is he doesn't really have a right to sell it either.

Mr. BECKMAN. Sure he has a right to sell it for the best profit he can get consistent with the public policies that I would hope would be stated from here, absolutely, and the argument with regard to not being able to dispose of your property is just so much baloney.

I mean let's just say I owned—I happen to own as a result of a death in my family a piece of property in a pretty decent neighborhood in Philadelphia that I am told has a value of about \$60,000. It happens to be two blocks away from a major intersection where there is a Gino's hamburger place.

Well, I would imagine that McDonald's would buy this piece of property from me for around \$300,000 and, therefore, law permitting, that is what I want to do. I don't want the property anymore; I want \$300,000.

However, there is something called zoning laws. The zoning laws say this is a residential neighborhood because the government, the municipal government, feels that there is some public welfare purpose served by zoning it residential and keeping it that way.

Therefore, are we to say that I have been rooked out of the other \$240,000 I might have made? No. That is one of the prices we pay for living in society, and being governed, and it really isn't very much different than the situation right here, except for a ploy that

has been developed by the very high priced and bright attorneys representing these converters.

They make this artificial distinction between use and ownership. They say you can go ahead and regulate use of property, but you can't regulate ultimate ownership.

I would suggest that when you are involved with the condominium conversion area, you are really dealing with a hybrid. You are dealing with a combination use and ownership, and I feel that it can easily be regulated through that avenue, not to suggest there aren't other avenues.

Mr. DAUB. Will the gentleman yield?

I am not quite sure from the response whether your question was answered or not. What I am trying to understand is, that the regulation should, even if we establish a hybrid—I heard you—that we should somehow pass a law to accomplish what you are asking us to accomplish consistent with public policy.

What public policy?

Mr. BECKMAN. A public policy that recognizes how essential housing is, and like someone else said earlier, it really isn't much different than food; a public policy that recognizes that there is a place in the overall community for rental housing, and before it is completely dissipated, perhaps there ought to be some protection, especially in a unique situation like this, and it is unique.

Mr. DAUB. I was talking about profits now again, and asking you. I am trying to get helpful information from you. How do you legislate the handling consistent with public policy?

Mr. BECKMAN. Make them bring it up to building code so buildings won't fall down 3 months later, like the one in Florida.

Mr. DAUB. Before it is sold?

Mr. BECKMAN. Sure. Before or—before any sales can be made of condominium units. Before any sales can be made of condominium units it must be brought up to building code, and since the individual in a single-family dwelling certainly can control—I mean they can live without heat or air-conditioning if they don't have the money for it and they choose to.

You should have that same right if you are going to own your apartment.

You do those two things and you will take a large step, simply because—and, by the way, this will be the argument you will hear on Wednesday, if we did that we would just have to pass those expenses on to the ultimate purchasers, and that would simply raise the purchase price to the ultimate purchasers, and what I say to that is all right.

Mr. Friedman could perhaps have purchased at 81, but could not have purchased at 104, and if these changes will make that price 154, which isn't really true, but if it did, then he certainly couldn't purchase. There won't be a market.

When there is no market, and these guys are learning it now, there are better places to make their money because they are running into stiffer and stiffer resistance, and if no legislation ever comes out of Congress, the activities of this committee will be extremely important as a means of sensitizing communities around this country, spreading education, and also making a little more difficult—I know that is not your real purpose to make it more



difficult for them, but that is one very effective way to begin to bring down the interest and making these big profits, because the profits become less.

Mr. DAUB. I am curious. Did the recent condominium that collapsed, did that collapse because it became a condominium?

Mr. BECKMAN. No, sir, obviously.

Mr. DAUB. Why don't we say, if we are going to have a building code, why don't we bring up all the rental property to code in the entire country?

Mr. BECKMAN. Not a bad idea.

Mr. DAUB. Do you want to pay the higher rent?

Mr. BECKMAN. Sure, I guess I have to. I always do. I always do. Let me make one other point to you.

You know, when I go in and rent a rental unit, I have a lease. If I feel that the structural integrity of that building is not so great, I can get out of there without great financial, emotional or physical hardship. Sell it to me. I own it. That means that my apartment on the sixth floor, when that building falls down or burns down, I can't pitch a pup tent on it. All I can do is collect it under insured proceeds. That is all.

So there is a big difference between rental units and private ownership of condominiums, and that is why there should be at least initially a distinction made requiring that it be brought up to building code, if it is going to be converted and sold off like that bolt of cloth there. You know, one penny for a bolt of cloth. Slice it into 10 pieces. Sell each piece for a penny, you have 10 pennies; buy 10 bolts of cloth. That is how these guys are making their money.

Mr. FRIEDMAN. May I interrupt?

Mr. DAUB. Sure.

Mr. FRIEDMAN. I am sorry, but I don't see any problem with regulating profit in the housing industry. We regulate profit federally in the lights and other necessities of life. Housing is as much a necessity of life as food, water, light, heat, any of the other items which are regulated, either locally or federally.

Mr. HILER. Are you now suggesting that we should have regulations on all housing?

Mr. FRIEDMAN. Yes, I do.

Mr. HILER. I have no further questions, Mr. Chairman.

Mr. ROSENTHAL. Thank you very much. I appreciate the benefit of your wisdom and your judgment and your testimony.

Our next two witnesses are Kathleen Beal of Washington, D.C., and Dr. Leon Pastalan of Ann Arbor, Mich.

We apologize to all of you for running so far behind, but that is the way the cookie crumbles.

Ms. Beal, why don't you begin, and anything you can do to expedite it, we would be very grateful. We do appreciate your coming here, and we are very, very grateful to you.

#### STATEMENT OF KATHLEEN BEAL, WASHINGTON, D.C.

Ms. BEAL. Mr. Chairman and gentlemen. It is my privilege to be here, and I will try to abbreviate some of my remarks.

I am Kathleen Beal, graduate student in gerontology at George Washington University. As an internship for my master's program,

I worked for Citywide Housing Foundation, a private, nonprofit agency involved in tenant advocacy and education.

My project involved a survey of 30 elderly people subject to condominium conversion, and in most cases resulting in displacement.

My remarks today relate primarily to the results of this survey and related literature on the subject.

Gentlemen, as you well know, graduate students tend to reinvent the wheel. I mean no disrespect to my graduate program, but at 41, one is slightly more circumspect than at 20. I can honestly say that I have learned a great deal, perhaps more in the last 3 months than my entire graduate program, from consistent and intensive contact with aging subjects in Washington.

Most of the people I saw and interviewed were over 70. To a person, they were among the most gracious and courageous and resilient men and women I have met in my life. They are people who have lived through two world wars. Some of them began working at 10 or 11 years of age. For the most part, they have given 40 or 50 years of participation to the labor force, and all of them have been suddenly confronted with the phenomenon of condo conversion and displacement in these, their golden years.

These people are surviving, but not as well as they may have had they been allowed to remain in rental housing as they had planned. One woman's husband died in the process of the conversion. Three subjects suffered heart attacks. Two interviewees admitted to eating dog food. One even told me that it wasn't bad if you heated it up. Several said they shop in thrift stores for clothing, but the single fact that they all address is the disruption in their lives, the shock to their systems this event has caused.

Gentlemen, I am not here to tell you anything you do not already know or sense about the issues of condominium conversion and displacement. I am here simply to illustrate the effects of this dual phenomenon on the elderly.

This next is an excerpt from my thesis, and I have changed the name of the woman.

On a sunny morning in early May 1978, Mrs. Gwen Lewis thumbed through her mail and casually opened the large manila envelope from her landlord. She remembers the azaleas were in bloom in the courtyard of her Connecticut Avenue apartment in upper northwest Washington. She should remember. That day was the day the bottom fell out of her 71-year-old life.

Married to a lawyer for over 40 years, Mrs. Lewis was not unfamiliar with the legalese in her morning's mail. She got the message loud and clear, buy or get out, so the search began, not easily, for she had endured two cancer operations, was widowed and had a strained relationship with her only daughter out West. She ventured out every day up and down Connecticut and Wisconsin Avenues. She had to be close to the bus and to church.

Overwhelmed with depression, Mrs. Lewis admits overdosing on sleeping pills. Fortunately, a neighbor found her and she recovered. But the pursuit for rental housing continued.

"No one wants to rent to old people," said Mrs. Lewis. Finally she found a basement apartment in a building further south on Connecticut Avenue with the assurance that the building would

not go condo. But the handwriting was on the wall. Within 2 years she received another manila envelope. This time, however, Mrs. Lewis came back fighting. With nine other tenants in her building, she organized and distributed flyers to 625 units, and held late-night meetings.

The group was successful in ousting the developers and tenants' association who wished to purchase the site; the building reverted to rental property—the only case of its kind in the District. "The condo issue woke me up," asserts Mrs. Lewis. "It robbed me of what little dignity I have left but it taught me that I have to fight for my existence."

Not all elderly tenants fare as well as Mrs. Lewis in recovering from condo conversion and displacement. National and local surveys confirm that the persons most negatively affected by the phenomena are the poor, minorities, and the elderly. Demographers George and Eunice Grier reported last month in an updated study on displacement for the Ford Foundation [copyright 1981] that there are four major and overlapping groups subjected to displacement from all causes in Washington, D.C. These include:

One: Renters—More than 80 percent of all households reported as displaced by the AHS had rented their previous residence.

Two: Blacks—Nearly 10 percent of blacks who moved were categorized as displaced compared to 7 percent whites.

Three: Low-income households—Nearly 52 percent of the "displaced" had incomes under \$10,000.

Four: Elderly—Nearly 29 percent of all movers over 65 reported themselves as displaced; elderly households generally made up over 14 percent of those displaced in the city.

The Griers maintain that displacement due to condominium conversion is primarily a white phenomenon in Washington. Historically that is accurate for it began in the upper northwest section of the city which is still largely white in population.

More recently, however, conversions have taken place on Capitol Hill, in the Dupont Circle area, Foggy Bottom, Adams-Morgan and Shaw. All of these areas contain a high percentage of nonwhites.

Preliminary 1980 census releases demonstrate, for example, that ward II lost almost one-quarter of its 1970 population and the attrition rate was fairly equal between whites and nonwhites alike. This is one of the wards hardest hit by condominium conversions; clearly, people left the area for reasons other than displacement but it can no longer be assumed that condominium conversion and resulting displacement is a primarily "white issue" in the District. Generalization across the United States, the Griers maintain:

For some kinds of people, in some situations, the probability of displacement is much higher than [our study] suggests. We can conjecture that it approaches 100 percent for certain groups—like elderly tenants on fixed incomes in apartment houses slated for conversion to condominiums, black low-income renters in innercity neighborhoods being "gentrified," or rural homeowners in the path of highway construction. Moreover, no statistics can adequately reflect the pain and anxiety of those facing displacement." ["Displacement: Where Things Stand," a report to the Ford Foundation, February 1981.]

Mr. ROSENTHAL. I wonder, Ms. Beal, if we could put the rest of your statement in the record in totality and summarize your views on the subject. The only problem we have, and it is not your fault, it is ours, the hour is running away from us.

Ms. BEAL. Probably the most significant things that I discover, which are similar to other research pieces on this issue is, one, that elderly displacees were able to relocate in the same neighborhood, although they tend to find smaller units.

This is important, because according to HUD's thesis, and their studies, most people do relocate in the same area, but Chester Hartman's piece and others that have come out since HUD's 1979 study indicates that these then are the most vulnerable people, because of the tidal wave phenomenon that occurs.

What was interesting to me is that none of these people, vis-a-vis Ms. Wilson today, want to even think about it, let alone believe that this could happen again. A substantial number that I saw had been displaced more than once.

You saw three elderly people who were in the process of doubling up. This is the phenomenon that the Census Bureau is trying to track, and those people are very difficult to find. These are people who move in with their children or with other friends or take in boarders to survive.

Another very interesting thing that I discovered was the issue of mortality which some of the people this morning addressed. It is difficult to assess, because it has confounding effects on the elderly anyway. Death is a natural event for people in their seventies and eighties and nineties but it was helpful to me to talk to one elderly tenant who had tracked the deaths in her building over the last several years, and what she showed me in her reports was that there were two deaths prior to conversion over a 3-year period. During the 15 months that the conversion went on in her building, there were eight deaths.

I am also doing a smaller study within my thesis that addresses the outmigration of population that we have had in the District in relation to the issues of conversion, and in comparing two wards, one in which it occurred rampantly, and that was ward II, and the other one in which it hardly occurred at all.

What I have discovered is that then you isolate it by neighborhood, you can see a significant drop in population, particularly after the 1976 condo laws, and at the same time, a rise in gross income averages, which indicates that you have had a switch in population, and that people with higher incomes are moving in and replacing those without.

Neither set of conclusions is absolute. It is still apparent that any enterprising city, particularly a city with financial woes like Washington, is not about to kick a gift horse in the face. Perhaps overall displacement has come to be viewed as a fallout effect, a necessary corollary to providing ownership housing and increasing the tax base for the city.

If that is true, it would seem a rather sad state of affairs, housing for profit, not for people.

Gentlemen, I do not pretend to have answers to the problems contingent on condominium conversion and displacement relative to the elderly. This committee is one of the few that has expressed that concern for those affected by this recent and rampant trend in real estate.

I would simply ask you, through the Congress, to develop alternative strategies to minimize the impact of the crisis for poor,

minorities, and elderly citizens on fixed income, strategies which recognize the preservation of existing stock as well as new construction of rental housing, and strategies which identify incentives necessary for private industry to enlarge its role in the rental market. And finally, the strategy of a national rental housing policy to foster the availability and affordability of rental housing for those who need or prefer to rent. We need the two-party system, rental housing and ownership housing.

Mr. ROSENTHAL. Thank you very much.

[Ms. Beal's prepared statement follows:]

CONDOMINIUM CONVERSION AND DISPLACEMENT  
AS IT AFFECTS THE ELDERLY

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Testimony before the House Subcommittee on Commerce, Consumer  
and Monetary Affairs  
March 30, 1981

Kathleen R. Beal, Graduate student in Gerontology Program,  
George Washington University and student intern at  
City-wide Housing Foundation, D.C.

Condominium conversion is the most controversial real estate phenomenon to strike America in over 100 years. 'Condomania' approaches fifty percent of the for-sale housing markets in Southern California, Chicago and Washington, D.C. Between 1970 and 1975, over 100,000 rental units were converted to condominiums nationwide. There were 50,000 conversions in 1977 alone and over 100,000 in 1978. By 1980 there were 2.1 million new and converted condos nationwide. For those who are able to purchase their units, condominiums are viewed as an asset. It gives the owner equity and a piece of real estate in a volatile marketplace. It can be sold again at a big profit. Unfortunately, for those persons who elect not to buy there is bitterness, chaos, and eventually, eviction. The persons hit hardest by conversions are the poor and senior citizens on fixed incomes. Dr. Martin Seligman in studies at the National Institute of Mental Health asserts: "Elderly persons who are forced to move lose control of their lives. Deterioration of mind and body sets in. Then comes a deep depression which replaces the will to live."



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On a sunny morning in early May, 1978, Mrs. Gwen Lewis thumbed through her mail and casually opened the large manila envelope from her landlord. She remembers the azaleas were in bloom in the courtyard of her Connecticut Avenue apartment in Northwest Washington. She should remember. That was the day the bottom fell out of her seventy-one year-old life. Married to a lawyer for over forty years, Mrs. Lewis was not unfamiliar with the legalese in her morning's mail. She got the message loud and clear: 'Buy or get out.' So the search began. Not easily for she had endured two cancer operations, was widowed, and had a strained relationship with her only daughter out West. She ventured out every day. Up and down Connecticut and Wisconsin Avenues. She had to be close to the bus and church. Overwhelmed with depression, Mrs. Lewis admits overdosing on sleeping pills. Fortunately, a neighbor found her and she recovered. But the pursuit for rental housing continued. "No one wants to rent to old people," said Mrs. Lewis. Finally she found a basement apartment in a building further south on Connecticut Avenue with the assurance that the building would not go condo. But the handwriting was on the wall. Within two years she received another manila envelope. This time, however, Mrs. Lewis came back fighting. With nine other tenants in her building, she organized and distributed flyers to 625 units, and held late night meetings. The group was successful in ousting the devel-



opers and tenants' association who wished to purchase the site; the building reverted to rental property-- the only case of its kind in the District. "The condo issue woke me up," asserts Mrs. Lewis. "It robbed me of what little dignity I have left but it taught me that I have to fight for my existence."

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For a few moments I would like to address the issue of the "pain and anxiety" experienced by elderly tenants caught in the tidal wave of condo conversion and displacement. My study was undertaken as a practicum project for completion of a master's degree in gerontology at George Washington University and was requested by City-wide Housing Foundation, a lobbying agency engaged in the education and defense of tenants. Thirty elderly subjects who had experienced condo conversion and/or displacement responded to a questionnaire and personal interview.

- . When asked if they were forced to choose an undesirable alternative, ninety-three

responded affirmatively. Similarly, eighty percent admitted to pressure from either the developer or tenants' association once the decision was made to convert.

- ~ Almost seventy percent claimed that the process had an adverse effect on their physical and emotional health. Financially, both buyers and renters alike confirmed that their monthly payments had increased greatly.
- . Most tenants would have preferred to remain as renters in the buildings they had occupied for many years; of the seventeen percent who purchased their units, sixty percent bought with some reluctance but looked on the decision as a security measure.
- . The majority of elderly displacees (75%) were able to relocate in the same neighborhood, although they tended to find smaller units for higher rent.
- . Undoubtedly the most distinctive finding among survey participants was the common expression of "powerlessness" and physical and emotional shock. Most were incredulous that the event of displacement had happened to them in their aging years.
- . For those displaced, there was a notable unfamiliarity with their physical surroundings: many were afraid to go out, some had not unpacked after several months, several talked about furniture and belongings they had to sell or store and which they missed.
- . Mortality among the elderly in relation to condominium conversion and displacement has many confounding effects and is almost impossible to measure. It was particularly helpful to review the records of one elderly tenant regarding deaths in the building. She reported two deaths in three years prior to conversion and seven deaths in the fifteen months of the conversion process. Three heart attacks and five hospitalizations were reported by survey respondents since their own displacement.

In order to assess the underlying policy issues implicit in the conversion movement and to balance the subjective nature of the personal interview, I am presently engaged in a fairly straightforward piece of design research which is attempting a comparison between two wards in the city-- one in which condominium conversion was prevalent (Ward II) and one in which the phenomenon hardly occurred at all (Ward IV) over the last decade. While the research is not complete, the preliminary findings conclude:

- . By measuring the same neighborhoods before and after condominium conversion took place in Ward II, one can see a dramatic drop in population after 1976 (when condominium conversion legislation was first enacted in the District).
- . At the same measurement times, the average gross income for these neighborhoods rose markedly. In other words, fewer residents -- and it can be postulated-- different residents replaced others with lower income levels and jointly paid more income tax to the city than a higher number of residents had paid the previous year even with controlling for wage and price increases.
- . A noticeably different scenario occurred in Ward IV, an area of the city which endured an average population drop for the city but maintained a relatively stable average gross income. Clearly, condominium conversion had no effect on income in this ward because it did not occur there.

A similar but highly technical study evaluated the fiscal impact of conversions on District property tax revenue. The assessed value of the 29 buildings under analysis after conversion increased 236 percent between FY '72 and FY79. The increase in tax revenue

revenue realized by the District from these buildings alone was approximately \$590,000, or an increase of 118 percent. If the same buildings had appreciated only as much as the overall District tax base, the city would have realized a net increase in revenue of only 114,700. (Development Economics Group, 1979).

While neither set of conclusions is absolute, it is still apparent that any enterprising city-- particularly a city with financial woes like Washington-- is not about to kick a gift-horse in the face. Perhaps, overall, displacement has come to be viewed as a fallout effect, a necessary corollary to providing ownership housing and increasing the tax base for the city. If that is true, it would seem a rather sad and base state of affairs: housing for profit, not for people.

Land is precious. Living space is equally precious. Yet we don't seem to have enough living space for all of our people, particularly our minorities, poor and elderly. Other countries in the free world manage to accomodate entire populations within far less living space than we do. (Holland example) It would seem that safe, decent housing is not too much to ask for all of our people regardless of income and age.

Gentlemen, I do not pretend to know the answer to the problems contingent on condominium conversion and displacement relative to the elderly. This committee is one of the few that has expressed national concern for those affected by this recent and rampant trend in real estate. I would simply ask you through the Congress to develop alternative strategies to minimize the

impact of the crisis for poor, minorities and elderly citizens on fixed incomes. Strategies which recognize the preservation of existing stock as well as new construction of rental housing. And strategies which identify incentives necessary for private industry to enlarge its role in the rental market. And finally, the strategy of a national rental housing policy to foster the availability and affordability of rental housing for those who need or prefer to rent.

A week ago George Will said in an editorial: "A lot of people cannot admit the truth they know without admitting that many cherished ideas are bunk." (Washington Post, 3-19-81). Safe, decent and affordable housing for all citizens is one of those cherished ideas. The displacement of people from housing without comparable provision has reduced this cherished idea to "bunk." Gentlemen, by your interest and concern expressed in this hearing today, we trust that you will work toward restoring this cherished idea of housing for people, not for profit.

Mr. ROSENTHAL. Dr. Pastalan.

**STATEMENT OF LEON PASTALAN, DIRECTOR, ENVIRONMENTAL AGING PROGRAM, INSTITUTE OF GERONTOLOGY, UNIVERSITY OF MICHIGAN, ANN ARBOR, MICH.**

Mr. PASTALAN. Thank you, Mr. Chairman and members of the committee.

Mr. ROSENTHAL. Without objection, we will put your entire statement into the record, and maybe you can speak to what you think are the high points of it.

Mr. PASTALAN. Yes, I certainly intend to, sir.

I am affiliated with the University of Michigan. I am a member of the Institute of Gerontology and the College of Architecture and Urban Planning, and most of my professional life I have spent really studying environmental programs as they impact on people's behavior.

In the last 10 years, I have spent a good deal of that time studying the effects of displacement on older people.

Basically, certainly the kind of things that have just been elaborated, I think the moving testimony on the part of the elderly this morning, indicate the seriousness of displacement, and what I would like to do here is to essentially summarize the literature in the field. There is an entire literature that deals with the effects of relocation or displacement, and a lot of it I have made some contribution to.

I think that the relocation can be divided into two types, voluntary and involuntary, and I think more or less we are talking about people that had been involuntarily relocated, and this has a tremendous psychological impact on well-being and outcome.

Basically what we did find is that the greater the choice and control the individual had in being relocated, the less negative the effects of relocation tended to be.

Another point was that the more predictable the new environment was, the less negative the results were. By predictable, we are talking here basically about familiarity.

Another point, those people of advanced age, that is people over 80 years of age, people in poor health and/or people who had confused mental status, did not fare as well as those that were healthier, and this particular point, I think, is cogent here, because we are dealing with individuals frequently who are advanced in age, over 80.

We found that consistently in our research, that people over 80, people with poor health status and/or confused mental status, were more vulnerable. These are people at most risk, and it seems to me that if we can intervene for anyone, we should be able to do it for these individuals.

There was also an occasion that those people who took an angry or philosophical attitude towards the move, toward being disrupted or displaced, showed better adjustment than those who tried to deny the move or withdraw from activities around them.

Most of the studies did not find a relationship between educational level, occupation or income and postrelocation adjustment. In other words, it affects people pretty much equally, whether they are college graduates or not.



Many of the studies found that the first 3 months immediately following the move are the most dangerous in terms of increased mortality rates, and other serious illnesses and other adjustment problems. So basically, if we are going to intervene with any sort of help, it really needs to be done immediately prior to the move and post-move. After 3 months, it tends to be probably a bit late.

Another point, the distance moved tended to be a reasonably good predictor of vulnerability, and this I think basically relates back to this home familiarity issue. How far are you going to move out of your neighborhood, and so on.

The last point I would like to make, and it doesn't come as any surprise, of course, those who moved involuntarily from one residence to another showed greater decreases in life satisfaction than those who made the same type of move voluntarily, and, of course, the life satisfaction is relevant only to those who survive.

I have a series of recommendations that I should like to propose. I think that in the main, it is clear that an involuntary move is not an acceptable option for many elderly adults, as it can be a burdensome and dangerous experience and must be avoided whenever humanly possible. The conversion process dislocates our elders from their homes. It forces them to leave what has become their most important possession, for it often forces them to leave family and friends and to move away from the community and private services on which they have come to rely. I, therefore, recommend the following:

One, that those persons over 65 who wish to remain in their apartments be provided with a lifetime lease at reasonable rents. Those units will not be offered for sale until the older adult moves out voluntarily or dies.

Two, those who choose to move voluntarily, the owner must provide the tenants with a relocation service which helps tenants and find comparable apartments in size, price, amenities and location. The apartment must be available at least for 1 year.

Three, the owner must also assist the tenant in orienting and familiarizing him or her with community resources and locating essential and life enriching services.

Four, pay moving costs and at least a \$500 relocation fee. I wrote this last year, so maybe I should make that \$1,000.

Five, if the rent is higher for the new apartment, the owner must pay the difference for at least 1 year.

I really would like to close this testimony with a poignant comment that an elderly sister in a Catholic order, apparently the order was being transferred, the reduction in the number of sisters that are currently in practice, and so on. Anyway, the point was that she had to move from one State to another, and she looked at me and said, "You know, I don't know a gardener in the world that would transplant an 88-year-old tree," and it seems to me that there is a great deal of message to that comment.

Thank you.

[Mr. Pastalan's prepared statement follows:]

CONGRESSMAN BEN ROSENTHAL	
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TESTIMONY PRESENTED BEFORE  
 HOUSE OF REPRESENTATIVES  
 COMMERCE, CONSUMER AND MONETARY AFFAIRS  
 SUBCOMMITTEE OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS

Leon A. Pastalan, Ph.D.  
 The University of Michigan

30 March 1981

TRAUMATIC EFFECTS OF DISPLACEMENT AND RELOCATION OF THE ELDERLY  
IN TERMS OF CONDOMINIUM CONVERSIONS

Leon A. Pastalan, Ph.D.  
The University of Michigan

My name is Leon A. Pastalan and I am the Director of the Environment and Aging Program at the Institute of Gerontology, and a Professor of Architecture in the College of Architecture and Urban Planning at The University of Michigan. I was co-project director of a National Institute for Mental Health investigation entitled FORCED RELOCATION: A STUDY OF INVOLUNTARY CHANGE OF PATIENTS FROM ONE SOCIO-PHYSICAL ENVIRONMENT TO ANOTHER, a longitudinal investigation of the effects on elderly patients in a county medical care facility of involuntary change from one socio-physical environment to another, and the determine the extent to which these effects are influenced by a) the characteristics of the patient, b) the characteristics of the changed environment, and c) intervention designed to prepare the patient for relocation.

I am now the Project Director of the Pennsylvania Preparation for Relocation Project, which also includes a longitudinal study of transfer trauma and discharge planning affects, which is in its seventh year of assisting the Health and Welfare Department of Pennsylvania in the development and utilization of a plan for preparation of elderly for relocation from one nursing home to another.

Beginning in 1938 Camargo and Preston (1945) undertook a three-year survey of first admissions of patients over 65 years of age to the Maryland state mental hospitals. A total of 683 cases were examined. In the first year following admission 47% died, with approximately 16% dying during the first month. After the second year another 11% died.

Whittier and Williams (1956) conducted a similar investigation and found that there was a twenty percent mortality rate within thirty days from the date of admission. After one year, half of the study population had died.

Both were designed to be descriptive studies, and not intended to prove any causal relationships. Yet, the numbers were too striking to ignore and suggested that further study was needed regarding the consequences of moving an older adult from one environment to another. Since that time much discussion has evolved into the notion of "transplantation shock" or "relocation effect" experienced by elderly individuals upon changing living environments. Thus, two major questions arise:

1. Do all older people under all conditions experience negative consequences following a move, or are certain types of individuals more susceptible to a move under certain conditions?
2. What, if anything, can be done to facilitate adjustment to a new setting and reduce the potential "transplantation shock"?

A careful review of the relocation literature reveals apparently contradictory results. For instance, Aldrich and Mendkoff (1963); Lieberman (1961); Killian (1970); Markus, Blenkner, Bloom, and Downs (1972); and Pablo (1977) have found that relocation has negative consequences such as increased mortality, depression, stress, and decreased life satisfaction. In contrast, Carp (1967); Lawton and Yaffe (1970); Lieberman, Tobin, and Slover (1971), and Carp (1977) have failed to find negative consequences in terms of survival, longevity, and general well-being of the elderly. In fact, in some instances significant positive results have been noted following a move to a new environment.

A major reason for the apparently contradictory findings is that underlying all the conclusions are qualifying factors such as the characteristics

of the people being moved, and of the receiving facility; the reasons for the move, and its meaning to the mover; and the helping techniques used to facilitate the moves. Thus, the results can be said to revolve around five major factors:

- the degree of choice in making the move
- the degree of environmental change
- the degree of health
- the degree of preparation
- the methodology utilized in the study

Schultz and Brenner (1977) postulate that negative responses to a stressful event will be lessened to the extent that the individual feels it is predictable and/or controllable. Consequently, given this assumption, the greater the choice an individual has, the less negative will be the effects of relocation. The degree of choice, in terms of whether the move is voluntary or involuntary, thus becomes an important qualifying factor which must be examined separately. Furthermore, an individual's response to a new environment will be a function of that individual's past experiences and environmental cues. It therefore becomes necessary to note the nature of the pre-relocation environment. These degrees of environmental change can be summarized into three general categories:

- A move from one residence to another (home to home).
- A move from a residence to an institution (home to institution).
- A move from one institution to another (institution to institution).

Since the focus of these hearings is on relocation of elderly persons from one residential setting to another, I will emphasize the literature which deals primarily with that phenomenon.

### Voluntary Move

Home to Home. Numerous studies have examined the effects of voluntarily moving aged individuals from one home to another. Carp (1967) was one of the first investigators to address this situation, and later did a follow-up examination of these same individuals eight years later (Carp, 1977), providing one of the few long-range longitudinal studies regarding the relocation experience. The research was conducted at Victoria Plaza, an apartment for the elderly, and consisted of comparing applicants who were accepted into the home with a matched set of applicants who did not become residents. Most of the relocatees were coming to an environment which was substantially better than the one in which they were leaving. She found that residents were more satisfied with their housing than nonresidents, that residents had less need for special services, had more memberships in clubs, and had more friends. No differences were found between the relocation experience of men and women. Consistently, attitudinal scores of residents improved, while those of the nonresidents showed slight decrements or no change. In addition, pre- and post-measures taken 12 to 15 months apart revealed that residents spent less time in bed on account of illness and less time in health care activities following relocation. Thus, the author concludes that more time should be spent on examining the role of the setting in determining the experience of the people living within it.

Citing the fact that most studies tend to report on the first year of tenancy following relocation, the Victoria Plaza residents were again examined (Carp, 1977) eight years later. At that point in time 26% of the 204 original in-movers to Victoria Plaza, and 37% of the 140 comparison group were dead or dying. These findings suggest that there can be a health benefit of a good living environment over the long range as well as the short. Carp suggests

that the new living environment facilitated satisfaction and reduced stress, which brought about, among other direct consequences, improved health status and a declining death rate.

Lawton and Yaffe (1970) also examined a move from one housing environment to new housing which was substantially better. Three pools of older people were matched for sex, age, and health at the beginning of the study:

1. a congregate housing relocated group;
2. a congregate housing nonrelocated group; and
3. a community nonrelocated group

The post-move mortality rate was found to be low in all three groups (a 12 month rate of 7.4%), with no significant differences between the voluntarily relocated group and the two matched control groups. However, Schulz (1976) warns that care should be taken in extrapolating these findings to other relocation questions since in the absence of random assignment it must be questioned what consequences might arise from comparing a group which had a desire to move with control groups which did not.

Like Lawton and Yaffe, Mittels and Botwinick (1974) found no differences in mortality rates between voluntary relocatees and control groups. The subjects had to be healthy to be included in the study, and were moved to a setting which stressed activities and group participation. Within one year of the move it was found that on the average the deceased tended to be older by nearly three years, were in less good initial health, and included a larger percentage of men. No significant differences were observed between those surviving after one year in terms of occupation, educational levels, nor marital status. These findings are compatible with those of Storandt and Mittels (1975) in which decisional control was exercised by the relocatees, and a maximum of predictability was maintained. No decrements in voluntarily relocated persons from pre-test to post-test were recorded.



In sum, the results reveal that the vast majority of subjects who moved voluntarily from one home to another maintained or improved their quality of life based on various attitudinal indicators. In addition, although most of the existing studies dealt only with healthy subjects there are indications that those who are older and in worse physical health initially will not fare as well after the move. Conflicting evidence was reported regarding post-relocation adaptation differences between men and women.

#### Involuntary Move

Home to Home. The results in this category are often contradictory. Hasteler, Gray and Carruth (1968) compared a group of people forced to move because of highway construction with a matched sample of nonrelocated elderly subjects. It was found that the nonrelocated group had significantly more persons with a good or average rating regarding health, friends, work, economic security, religion, feelings of usefulness, and happiness. Thus, the non-relocated subjects seemed to score higher on measures of personal adjustment and amount of activity.

Brand and Smith (1974) initiated a similar study and found that the non-relocated group also scored significantly higher than the relocated group on a life satisfaction index. In addition, it was discovered that those who were the most unhealthy were more susceptible to the stress of relocation than were those who were healthy. Relocation had a more adverse effect on females than for males, and blacks seemed to adjust better than whites. No difference was observed between the relocated and nonrelocated groups with regard to health status.

In contrast to the findings of Brand and Smith - Kral, Grad, and Berenson (1968) found that normal aged men appeared to suffer more from relocation than

normal aged women. Within 23 months, the mortality rates were 42% for men and 20% for women. Yet, they also discovered that those who were unhealthy and those who were psychotic did not adjust as well to the move as did those who were healthy.

Shahinian, Goldfarb, and Turner (1968) compared death rates for involuntary relocatees to a control group which was not relocated. Support was revealed for the previous findings that those having moderate physical impairment, severe brain syndrome, and severe motor impairment are likely to experience negative consequences and higher mortality rates.

In sum, the literature regarding forced relocation from one residence to another was not as favorable as it was for the relocatees who voluntarily moved from one home to another. Most studies found some negative consequences associated with the move. In particular, those people with physical and mental health disabilities consistently showed up as being more vulnerable to a move.

The city of Detroit, Michigan in its current effort of industrial re-ritalization has recognized the necessity to provide special assistance to elderly persons who are displaced from their homes as a result of this effort. The Relocation Section of the Community and Economic Development Department has retained the services of relocation specialists for the elderly. These specialists train the city relocation workers in the preparation for relocation of older residents and also work directly with those elderly persons who occasionally present unusual problems or difficulties.

#### Summary - Preparation Program Highlights

- All of the studies reviewed here found that although there is a danger in relocating some types of elderly people in some situations, a carefully designed preparation program can reduce the danger to some extent and facilitate post-relocation adjustment.
- Involve the relocatee in the decision-making as much as possible.
- Utilize as many pre-move site visits as the relocated person wants.
- Sensitize the family to the move and involve them in the planning process as much as possible.
- Characteristics of advanced age, poor prognosis, and confused mental status are strong predictors of mortality following relocation, even when a preparation program is used.

#### Summary of Findings and Conclusions

- The greater the choice and control the individual had in being relocated, the less negative the effects of relocation there tended to be.
- The more predictable the new environment was, the less negative the results were in general.
- Those people of advanced age, poor prognosis, and confused mental status did not fare as well as those who were healthier.
- There was some indication that those people who took an angry or philosophical attitude toward the move showed better adjustment than those who tried to deny the move or withdraw from activities.

- Most of the studies did not find a relationship between length of hospitalization, educational level, occupation, or income and post-relocation adjustment.
- Many of the studies found that the first three months immediately following the move are the most dangerous in terms of increased mortality rates.
- Distance moved tended to be a reasonably good predictor of vulnerability.
- Those who moved involuntarily from one residence to another showed greater decreases in life satisfaction than those who made the same type of move voluntarily.

#### Recommendations

In the main, it is clear that an involuntary move is not an acceptable option for most elderly adults as it can be a burdensome and dangerous experience and must be avoided whenever humanly possible. The conversion process dislocates our elders from their homes. It forces them to leave what has become their most important possession, for it often forces them to leave family and friends and to move away from the community and the public and private services on which they have come to rely.

It is recommended therefore:

1. That those persons over 65 who wish to remain in their apartments be provided with a lifetime lease at reasonable rents. Those units will not be offered for sale until the older adult moves out voluntarily or dies.
2. For those who choose to move voluntarily or if the first recommendation is found to be untenable for legal or other reasons, the owner must provide tenants with a relocation

- service which helps tenants find comparable apartments in size, price, amenities and location. The apartment must be available for at least one year.
3. The owner must also assist the tenant in orienting and familiarizing him/her with community resources and locating essential and life-enriching services.
  4. Pay moving costs and at least a \$500 relocation fee.
  5. If the rent is higher for the new apartment the owner must pay the difference for at least one year.

Mr. ROSENTHAL. Mr. Daub.

Mr. DAUB. Are you continuing to study this area and are you pursuing additional results from the 30 population samples that you took?

Ms. BEAL. I have completed.

Mr. DAUB. It is finished?

Ms. BEAL. My internship and that particular section of my thesis is completed. I would like to continue working in the field.

Mr. DAUB. I was curious if there is further study you were going to do, any more information you might be developing for the benefit of this subcommittee.

Ms. BEAL. Unfortunately, I was born about 2 years before my time. I really need the 1980 census data, and it really won't be in broken down terms until the end of this year.

Mr. DAUB. We certainly appreciate the opportunity to listen to both of you and get the current information and the recommendations, Doctor. It is certainly well received.

Mr. ROSENTHAL. Thank you both very much for very useful and very important testimony.

The subcommittee stands adjourned until 9:30 tomorrow morning.

[Whereupon, at 1:45 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Tuesday, March 31, 1981.]





## CONDOMINIUM AND COOPERATIVE CONVERSION: THE FEDERAL RESPONSE

### (Part 1—Overview Hearings)

TUESDAY, MARCH 31, 1981

HOUSE OF REPRESENTATIVES,  
COMMERCE, CONSUMER,  
AND MONETARY AFFAIRS SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:38 a.m., in room 2154, Rayburn House Office Building, Hon. Benjamin S. Rosenthal (chairman of the subcommittee) presiding.

Present: Representatives Benjamin S. Rosenthal, Stephen L. Neal, Hal Daub, William F. Clinger, Jr., and John Hiler.

Also present: Peter S. Barash, staff director; Theodore J. Jacobs, general counsel; Eleanor M. Vanyo, secretary; and Jack Shaw, minority professional staff, Committee on Government Operations.

Mr. ROSENTHAL. I will introduce our first panel of witnesses representing tenants' organizations:

Mr. Jack Kaplan, Rogers Park Tenants Organization, Chicago, Ill.; Mr. John Atlas, New Jersey Tenants Organization; and Mr. John McDonough, executive director, Massachusetts Tenants Organization.

If you gentlemen would take your seats, we would be very appreciative, and the subcommittee will begin taking your testimony. Mr. Kaplan, you can go first simply because your are listed on the schedule at the top of the three. Would you please begin?

#### STATEMENT OF JACK KAPLAN, ROGERS PARK TENANTS COMMITTEE

Mr. KAPLAN. Thank you, Mr. Chairman.

Mr. ROSENTHAL. Would everyone make sure their microphone is fairly close?

Mr. KAPLAN. All right. I think it is close enough now.

Mr. Chairman, my name is Jack Kaplan. I am an attorney in private practice in the city of Chicago. I am also a staff person responsible for housing affairs for my local alderman, David Orr, and I am a founding member of the Rogers Park Tenants Committee, a community-based organization concerned with a wide range of tenant-related issues, including condominium conversions. I am also a tenant.

I wish to thank this committee for the opportunity to speak on behalf of tenants in the city of Chicago. Our city is often referred

to as the condo capital of America. This is due in large part to the efforts of one particular developer your committee is most familiar with—American Invsco.

Under the Illinois Condominium Property Act the first condominium conversion was accomplished in 1964 in the community of Hyde Park near the University of Chicago.

Mr. ROSENTHAL. Could you slow it down a little?

Mr. KAPLAN. OK. The first condominium conversion occurred in Hyde Park, which is on the south side of Chicago and is the neighborhood of Ida Wilson, who spoke here yesterday. This conversion was followed by the first high rise conversion in 1965. However, it was not until the 1970's that conversions began to encroach upon large numbers of rental buildings.

According to Donald Haider, the former budget director for the city of Chicago, in his recent report, "Economics, Housing and Condominium Development," the number of condominiums rose from 10,000 to 50,000 units during the period from 1975 to 1978.

In the year 1978 alone, approximately 24,000 city and suburban conversions took place. This comprised almost one-quarter of the national total. Since 1978 this pattern has persisted. Recently, the largest conversion to date occurred—655 units in the Sandburg Village Development on the near northside were converted from rental to condominiums. There are now approximately somewhere between 55,000 and 60,000 condominium units in Chicago.

The effects of these conversions are numerous and often adverse. In order to understand the impact of this radical shift in housing on Chicago, it is first necessary to characterize the housing conditions that currently exist in the city.

According to preliminary census statistics, Chicago has a population of just under 3 million. Of the approximately 1.1 million dwelling units that exist, 39 percent are owner-occupied and 61 percent are renter-occupied. A significant part of the city's housing stock was constructed prior to the Great Depression of the 1930's. These dwellings are subject to rapid deterioration if not properly maintained. Landlords faced with the inflationary spiral of operating costs, reflected in their utility bills, labor, and property taxes often defer necessary maintenance. This frequently results in deterioration and abandonment of rental housing stock.

According to the most recent Chicago housing assistance plan, at least 25 percent of the city's dwelling units are presently substandard. Between 1970 and 1978, 40,000 units were added to the housing stock in Chicago. However, during this same period, 55,000 units were demolished, resulting in a net loss of some 15,000 units of housing during that period. This has led to a vacancy rate of under 5 percent, considered the minimum required to permit mobility and avoid artificial inflation of rents according to both Government and industry experts.

It is this distressed housing market which has fallen prey to condominium developers. These companies have altered the existing market by converting the most desirable rental units in order to reap quick, enormous profits. The developers can often turn a profit in 3 to 6 months from the time of purchase of an apartment building from the owner to completed sales of converted units to interested investors.

The city of "The Big Shoulders" is also the city of the hard sell when it comes to condominiums, and no one pushes harder than American Invsco.

Such tactics as complimentary fruit baskets, hard sell by the salesmen, and chain letters to interested tenants and buildings have resulted in rewarding the developers handsomely. American Invsco paid \$10 million for a Mies Van Der Rohe apartment building. After spending \$250,000 to cosmetically improve the common areas, the units were sold for an estimated \$14 million giving the developer a 44-percent return on its investment.

The effects of this unconscionable speculation have spread across the entire housing market of Chicago artificially raising the costs for both owners and renters. Prices of Lake Shore condominiums increased by 121 percent in 1 year from 1977 to 1978. In one building alone the price of a 1-bedroom apartment jumped from \$52,000 to \$71,000 within a 1-month period.

Rental housing squeezed by a diminished number of safe and affordable units, an extremely low-vacancy rate, and inflated prices of surrounding properties is either catering only to the affluent or is deteriorating and unsafe while serving a larger and larger number of displaced tenants, now estimated by one report at a minimum of 20,000. Those suffering the greatest hardships are the poor and elderly. They are either unable to pay the steep down-payments and monthly amounts or are unwilling because of age or lifestyle to commit themselves to the large investment involved.

The housing crisis in Rogers Park represents the deleterious consequences of existing market conditions. Over 65 percent of the people in Rogers Park are tenants. Countering the myth that renters are not interested in the community in which they live, Rogers Park has, in fact, been a highly stable community.

In 1974, 26 percent of its tenants had lived there for from 3 to 5 years, and 36 percent had been in the community for over 10 years. Its residents include people from a variety of economic and ethnic backgrounds. It is also among Chicago's six communities with the greatest number of condominium conversions. Rampant conversion of affordable rental units to condominiums, a vacancy rate of under 2 percent, and drastic rent increases ranging from 15 to 100 percent or more are combining to drive the low and moderate income residents from Rogers Park and thereby threatens the diversity of the community so highly valued by its residents.

Although condominiums may assist in stabilizing neighborhoods when occupied by their owners, a significant portion of the condominium units are currently owned by investors. This creates the situation of multiple absentee landlords in a single building. While the speculators cause the rental prices for those condominiums to increase, their investment also causes a ripple effect on the fewer neighboring rental units—their rents also increase.

This turn of events is having a particularly adverse impact on the large elderly population of Rogers Park. Many senior citizens are on fixed incomes and are now forced to sacrifice other basic necessities such as heat, food and health care in order to pay their monthly rent.

Furthermore the seemingly harmless notice of intent to convert causes a totally disruptive impact on the life of the elderly. Marga-

ret Knowles is a widow who has lived in the same apartment for the past 40 years. When she moved into that apartment with her first husband in 1941, their rent was \$57.50.

Until she received a notice of intent to convert her building in March 1979, she had intended to live out her life in the spacious 1-bedroom apartment in which she lived. Instead, Mrs. Knowles is being uprooted and is forced to take her 40 years of possessions and memories to another apartment. The disruption inflicted upon Mrs. Knowles has led to severe migraine headaches and hospitalization. The idea of buying her apartment was unaffordable and did not appeal to her. What if she required medical attention or hospitalization she asks. The condominium would not pay for that. Instead she is confronted with the financial, physical, and emotional demands of relocation—none of which are compensated by the developer, the party most responsible for those severe costs.

In fact, it is these persons who are most directly affected by conversions that are the least protected under local legislation. While the State and city fathers have gone to great ends to protect the interests of prospective purchasers of those converted units, a deaf ear has been turned on displaced tenants who stand to lose the most. They have virtually no control over forces dramatically impinging on their lives.

The housing crisis facing tenants in Rogers Park and throughout our country is a serious one. Safe and affordable rental housing stock is evaporating into unaffordable condominiums or substandard shelter with tenants caught in this intractable vise.

In closing, I am here this morning not calling for a blanket end to condominium conversion but possibly a moratorium in a period during which proper legislation and studies can be done in order to determine the exact impact the condominiums are having on the cities of this country.

Tenants can no longer tolerate the role of urban nomads, displaced from apartment to apartment by developers whose only concern is the profitability of condo conversions. Rather, we must seek to preserve the integrity of neighborhoods like Rogers Park—neighborhoods with a mixed rental and ownership constituency, neighborhoods with a diverse socio-economic flavor. What is needed is legislation to deter the speculation and displacement caused by conversion. What is required are incentives to encourage more safe and affordable housing stock—both ownership and rental—in order to maintain stable communities for the good of all our citizens.

Mr. ROSENTHAL. Thank you very much.

[Mr. Kaplan's prepared statement follows:]

March 31, 1981

TESTIMONY BEFORE COMMERCE, CONSUMER AND MONETARY  
AFFAIRS SUBCOMMITTEE OF THE U.S. HOUSE OF  
REPRESENTATIVES COMMITTEE ON GOVERNMENT OPERATIONS

GOOD MORNING, CONGRESSMEN. MY NAME IS JACK KAPLAN. I  
AM AN ATTORNEY IN PRIVATE PRACTICE IN CHICAGO. I AM ALSO A STAFF  
PERSON RESPONSIBLE FOR HOUSING AFFAIRS FOR MY LOCAL ALDERMAN,  
DAVID ORR, AND I AM A FOUNDING MEMBER OF THE ROGERS PARK TENANT'S  
COMMITTEE, A COMMUNITY-BASED ORGANIZATION CONCERNED WITH A WIDE  
RANGE OF TENANT-RELATED ISSUES, INCLUDING CONDOMINIUM CONVERSIONS.  
I ALSO AM A TENANT.

I WISH TO THANK THIS COMMITTEE FOR THE OPPORTUNITY TO  
SPEAK ON BEHALF OF TENANTS IN CHICAGO. OUR CITY IS OFTEN REFERRED  
TO AS THE CONDO CAPITAL OF AMERICA. THIS IS DUE IN LARGE PART TO  
THE EFFORTS OF ONE DEVELOPER YOUR COMMITTEE IS MOST FAMILIAR WITH  
-- AMERICAN INVSCO.

UNDER THE ILLINOIS CONDOMINIUM PROPERTY ACT THE FIRST  
CONDOMINIUM CONVERSION WAS ACCOMPLISHED IN 1964 THE COMMUNITY OF  
HYDE PARK NEAR THE UNIVERSITY OF CHICAGO -- THE NEIGHBORHOOD  
IDA WILSON, WHO SPOKE HERE YESTERDAY LIVES IN. THIS WAS FOLLOWED  
BY THE FIRST HIGH-RISE CONVERSION IN 1965. HOWEVER, IT WAS NOT

UNTIL THE 1970'S THAT CONVERSIONS BEGAN TO ENCROACH UPON LARGE NUMBERS OF RENTAL BUILDINGS. ACCORDING TO DONAL HAIDER, THE FORMER BUDGET DIRECTOR FOR THE CITY OF CHICAGO, IN HIS RECENT REPORT ON ECONOMICS, HOUSING AND CONDOMINIUM DEVELOPMENT, THE NUMBER OF CONDOMINIUMS ROSE FROM 10,000 TO 50,000 UNITS DURING THE PERIOD FROM 1975 TO 1978. IN THE YEAR OF 1978 ALONE, APPROXIMATELY 24,000 CITY AND SUBURBAN CONVERSIONS TOOK PLACE. THIS COMPRISED 24% OF THE NATIONAL TOTAL. SINCE 1978 THIS PATTERN HAS PERSISTED. RECENTLY, THE LARGEST CONVERSION TO DATE OCCURRED. 655 UNITS IN THE CARL SANDBURG VILLAGE DEVELOPMENT ON THE NEAR NORTHSIDE WERE CONVERTED FROM RENTAL TO CONDOMINIUMS. THERE ARE RECENTLY BETWEEN 55,000 AND 60,000 CONDOMINIUMS IN CHICAGO.

THE EFFECTS OF THESE CONVERSIONS ARE NUMEROUS AND ADVERSE. IN ORDER TO UNDERSTAND THE IMPACT OF THIS RADICAL SHIFT IN HOUSING STOCK ON CHICAGO, IT IS FIRST NECESSARY TO CHARACTERIZE THE HOUSING CONDITIONS THAT CURRENTLY EXIST IN THE CITY. ACCORDING TO PRELIMINARY CENSUS STATISTICS, CHICAGO HAS

A POPULATION OF JUST UNDER 3 MILLION. OF THE APPROXIMATELY 1.1 MILLION DWELLING UNITS THAT EXIST, 39% ARE OWNER-OCCUPIED AND 61% ARE RENTER-OCCUPIED. A SIGNIFICANT PART OF THE CITY'S HOUSING STOCK WAS CONSTRUCTED PRIOR TO THE GREAT DEPRESSION OF THE 1930'S. THESE DWELLINGS ARE SUBJECT TO RAPID DETERIORATION IF NOT PROPERLY MAINTAINED. LANDLORDS, FACED WITH THE INFLATIONARY SPIRAL OF OPERATING COSTS, REFLECTED IN THEIR UTILITY BILLS, LABOR, AND PROPERTY TAXES OFTEN DEFER NECESSARY MAINTENANCE. THIS FREQUENTLY RESULTS IN DETERIORATION AND ABANDONMENT OF RENTAL BUILDINGS. ACCORDING TO THE MOST RECENT CHICAGO HOUSING ASSISTANCE PLAN, AT LEAST 25% ONE QUARTER OF THE CITY'S DWELLING UNITS ARE PRESENTLY SUBSTANDARD. BETWEEN 1970 AND 1978 40,000 UNITS WERE ADDED TO THE HOUSING STOCK. HOWEVER, DURING THIS SAME PERIOD, 55,000 UNITS WERE DEMOLISHED, RESULTING IN A NET LOSS OF SOME 15,000 UNITS OF HOUSING. THIS HAS LEAD TO A VACANCY RATE OF BETWEEN ONE AND FIVE PERCENT, CONSIDERED AN EMERGENCY LEVEL BY HUD.



IT IS THIS DISTRESSED HOUSING MARKET WHICH HAS FALLEN PREY TO CONDOMINIUM DEVELOPERS. THESE COMPANIES HAVE ALTERED THE EXISTING MARKET BY CONVERTING THE MOST DESIREABLE RENTAL UNITS IN IN ORDER TO REAP QUICK, ENORMOUS PROFITS. THE DEVELOPER CAN OFTEN TURN A PROFIT IN THREE TO SIX MONTHS FROM THE TIME OF PURCHASE FROM AN APARTMENT BUILDING OWNER TO COMPLETED SALES OF CONVERTED UNITS TO INTERESTED INVESTORS.

THE CITY OF "THE BIG SHOULDERS" IS ALSO THE CITY OF THE HARD SELL WHEN IT COMES TO CONDOMINIUMS, AND NO ONE PUSHES HARDER THAN AMERICAN INVSCO. FOR EXAMPLE, BOB TAMARKIN IN FORBES MAGAZINE REPORTED A 60 DAY DRIVE BY INVSCO TO SELL 417 UNITS IN THE OUTER DRIVE EAST COMPLEX. THE COMPANY INITIATED ITS CAMPAIGN BY DELIVERING A COMPLIMENTARY BASKET OF FRUIT AND BOTTLE OF CHAMPAGNE TO EACH TENANT. THEREAFTER, RESIDENTS WERE LAVISHLY ENTERTAINED WITH BRUNCHES AND DINNERS AND RECEIVED FREQUENT VISITS FROM SALESPERSONS. FINALLY, TENANTS RECEIVED A LETTER WHICH INFORMED THEM OF OTHERS IN THE BUILDING WHO WERE PURCHASING CONDOMINIUM UNITS.

SUCH TACTICS HAVE REWARDED DEVELOPERS HANDSOMELY.

AMERICAN INVSCO PAID 10 MILLION DOLLARS FOR A MIES VAN DOR ROHE APARTMENT BUILDING AFTER SPENDING 250,000 DOLLARS TO COSMETICALLY IMPROVE THE COMMON AREAS, THE UNITS WERE SOLD FOR AN ESTIONATED \$14 MILLION, GIVING THE 44% RETURN ON ITS INVESTMENT.

FOR CHARLES SWIBEL, REAL ESTATE DEVELOPER AND CHAIRMAN OF THE CHICAGO HOUSING AUTHORITY, HIS GOLD MINE WAS IN THE FORM OF TWO CIRCULAR TOWERS CALLED MARINE CITY. SWIBEL'S COMPANY, INITIALLY CAPITALIZED AT \$1,000, BOUGHT PROPERTY FOR \$32.3 MILLION. HE THEN SPENT 3 MILLION DOLLARS UPGRADING THE APARTMENTS. IN 14 MONTHS, AN ESTIMATED \$41.5 MILLION DOLLARS WORTH OF CONDOMINIUMS WERE SOLD, EARNING SWIBEL A TIDY PROFIT OF \$6,250,000. IN ADDITION, HIS COMPANY RETAINED A FIVE YEAR MANAGEMENT CONTRACT AT \$107,000 A YEAR.

THE EFFECTS OF THIS UNCONSCIONABLE SPECULATION HAVE SPREAD ACROSS THE ENTIRE HOUSING MARKET OF CHICAGO ARTIFICIALLY RAISING THE COSTS FOR BOTH OWNERS AND RENTERS. PRICES OF LAKE SHORE

CONDOMINIUMS INCREASED BY 121% FROM 1977 TO 1978. IN ONE BUILDING THE PRICE OF ONE BEDROOM APARTMENTS JUMPED FROM \$52,000 TO \$71,000 WITHIN A MONTH.

RENTAL HOUSING, SQUEEZED BY A DIMINISHING NUMBER OF SAFE AND AFFORDABLE UNITS, AN EXTREMELY LOW VACANCY RATE AND INFLATED PRICES OF SURROUNDING PROPERTIES IS EITHER CATERING ONLY TO THE AFFLUENT OR IS DETERIORATING AND UNSAFE WHILE SERVING THE LARGER AND LARGER NUMBERS OF DISPLACED TENANTS, NOW ESTIMATED BY ONE REPORT AT A MINIMUM OF 20,000. THOSE SUFFERING THE GREATEST HARDSHIPS ARE THE POOR AND ELDERLY. THEY ARE EITHER UNABLE TO PAY THE STEEP DOWN PAYMENTS AND MONTHLY AMOUNTS OR ARE UNWILLING BECAUSE OF AGE OR LIFESTYLE TO COMMIT THEMSELVES TO THE LARGE INVESTMENT INVOLVED.

THE HOUSING CRISIS IN ROGERS PARK REPRESENTS THE DELETERIOUS CONSEQUENCES OF EXISTING MARKET CONDITIONS. OVER 65% OF THE PEOPLE IN ROGERS PARK ARE TENANTS. ITS RESIDENTS INCLUDE PEOPLE FROM A VARIETY OF ECONOMIC AND ETHNIC BACKGROUNDS. IT IS AMONG THE

SIX CHICAGO COMMUNITIES WITH THE GREATEST NUMBER OF CONDOMINIUM CONVERSIONS. RAMPANT CONVERSION OF AFFORDABLE RENTAL UNITS TO CONDOMINIUMS, A VACANCY RATE OF UNDER 2% AND DRASTIC RENT INCREASES RANGE FROM 15 TO 100% ARE COMBINING TO DRIVE THE LOW AND MODERATE INCOME RESIDENTS FROM ROGERS PARK AND THEREBY THREATENS THE DIVERSITY OF THE COMMUNITY SO HIGHLY VALUED BY ITS RESIDENTS. ALTHOUGH CONDOMINIUMS MAY ASSIST IN STABILIZING NEIGHBORHOODS WHEN OCCUPIED BY THEIR OWNERS, A SIGNIFICANT PORTION OF THE CONDOMINIUM UNITS ARE CURRENTLY OWNED BY INVESTORS: THIS CREATES THE SITUATION OF MULTIPLE ABSENTEE LANDLORDS IN A SINGLE BUILDING. WHILE THE SPECULATORS CAUSE THE RENTAL PRICE FOR CONDOMINIUMS TO INCREASE, THEIR INVESTMENT ALSO CAUSES A RIPPLE EFFECT ON THE FEWER NEIGHBORING RENTAL UNITS -- THEIR RENTS ALSO INCREASE.

THIS TURN OF EVENTS IS HAVING A PARTICULARLY ADVERSE IMPACT ON THE LARGE ELDERLY POPULATION OF ROGERS PARK. MANY SENIOR CITIZENS ARE ON FIXED INCOMES AND ARE NOW FORCED TO SACRIFICE OTHER BASIC NECESSITIES SUCH AS HEAT, FOOD AND HEALTH CARE IN ORDER TO PAY THEIR MONTHLY RENT. FURTHERMORE THE

SEEMINGLY HARMLESS NOTICE OF INTENT TO CONVERT CAUSES A DISRUPTIVE IMPACT ON THE LIFE OF THE ELDERLY. MARGARET KNOWLES IS A WIDOW WHO HAS LIVED IN THE SAME APARTMENT FOR THE PAST 40 YEARS. WHEN SHE MOVED INTO THE APARTMENT WITH HER FIRST HUSBAND IN 1941 THEIR RENT WAS \$57.50. UNTIL SHE RECEIVED A NOTICE OF INTENT TO CONVERT HER BUILDING IN MARCH, 1979, SHE INTENDED TO LIVE OUT HER LIFE IN THE SPACIOUS ONE-BEDROOM APARTMENT. INSTEAD, MRS. KNOWLES IS BEING UPROOTED AND IS FORCED TO TAKE HER 40 YEARS OF POSSESSIONS AND MEMORIES TO ANOTHER APARTMENT. THE DISRUPTION INFLICTED UPON MRS. KNOWLES HAS LED TO SEVERE MIGRAINE HEADACHES AND HOSPITALIZATION. THE IDEA OF BUYING HER APARTMENT DIDN'T APPEAL TO HER. WHAT IF SHE REQUIRED MEDICAL ATTENTION OR HOSPITALIZATION? THE CONDOMINIUM WOULDN'T PAY FOR THAT. INSTEAD, SHE IS CONFRONTED WITH THE FINANCIAL, PHYSICAL AND EMOTIONAL DEMANDS OF RELOCATION -- NONE OF WHICH ARE COMPENSATED BY THE DEVELOPER, THE PARTY RESPONSIBLE FOR THOSE SEVERE COSTS.

IN FACT, THOSE PERSONS MOST DIRECTLY AFFECTED BY CONVERSIONS ARE THE LEAST PROTECTED UNDER LOCAL LEGISLATION. WHILE THE STATE AND CITY FATHERS HAVE GONE TO GREAT ENDS TO PROTECT THE INTERESTS OF PROSPECTIVE PURCHASERS OF THESE CONVERTED UNITS, A DEAF EAR HAS BEEN TURNED ON DISPLACED TENANTS, WHO STAND TO LOSE THE MOST -- NO RIGHT TO BLOCK THE CONVERSION, NO RIGHT TO BUY THE BUILDING THEMSELVES, NO RIGHT TO RELOCATION BENEFITS OF ANY KIND -- VIRTUALLY NO CONTROL OVER FORCES DRAMATICALLY IMPINGING ON THEIR LIVES.

THE HOUSING CRISIS FACING TENANTS IN ROGERS PARK, AND THROUGHOUT OUR COUNTRY IS A SERIOUS ONE. SAFE AND AFFORDABLE RENTAL HOUSING STOCK IS EVAPORATING INTO UNAFFORDABLE CONDOMINIUMS OR SUBSTANDARD SHELTER, WITH TENANTS CAUGHT IN THIS INTRACTABLE VISE.

IN CLOSING, CONGRESSMAN, I AM NOT HERE THIS MORNING TO CALL FOR AN END TO ALL CONDOMINIUM DEVELOPMENT. HOWEVER, TENANTS CAN NO LONGER TOLERATE THE ROLE OF URBAN NOMADS, DISPLACED FROM APARTMENT TO APARTMENT BY DEVELOPERS WHOSE ONLY CONCERN IS

THE PROFITABILITY OF CONDO CONVERSIONS. RATHER, WE MUST SEEK TO PRESERVE THE INTEGRITY OF NEIGHBORHOODS, LIKE ROGERS PARK. NEIGHBORHOODS WITH A MIXED RENTAL AND OWNERSHIP CONSTITUENCY. NEIGHBORHOODS WHICH HAVE A DIVERSE SOCIO-ECONOMIC FLAVOR. WHAT IS NEEDED IS LEGISLATION TO DETER THE SPECULATION AND DISPLACEMENT CAUSED BY CONVERSION. WHAT IS REQUIRED ARE INCENTIVES TO ENCOURAGE MORE SAFE AND AFFORDABLE HOUSING STOCK -- BOTH OWNERSHIP AND RENTAL IN ORDER TO MAINTAIN STABLE COMMUNITIES FOR THE GOOD OF ALL OUR CITIZENS.

Mr. ROSENTHAL. Mr. Atlas?

**STATEMENT OF JOHN D. ATLAS, VICE PRESIDENT/LEGAL COUNSEL, NEW JERSEY TENANTS ORGANIZATION**

Mr. ATLAS. Mr. Chairman, the New Jersey Tenants Organization appreciates the invitation to testify here. My name is John Atlas. I am the vice president and legal counsel of the New Jersey Tenants Organization (NJTO). I also publish and edit a national housing publication called Shelterforce. I have taught at Rutgers University, serve on the Essex County Executive's Advisory Task Force on County Bank Deposits and the New Jersey Technical Advisory Committee on Multifamily Housing. I have published a number of articles on tenants' rights and housing.

I am here testifying on behalf of the New Jersey Tenants Organization. NJTO is the oldest and largest statewide tenant organization in the country. With over 75,000 dues-paying members and 120 citywide tenant organizations, we are reaching well over 500,000 tenants yearly.

Mr. ROSENTHAL. Mr. Atlas, without objection, your entire statement will be included in the record. Would you get to the high-lights?

Mr. ATLAS. OK. Let me begin with the cold statistics. I do want to emphasize, however, before I go into these statistics, that I am not speaking individually. I am speaking on behalf of a large dues-paying member organization in the State of New Jersey.

The national condominium conversion trend hit New Jersey full-force in 1979 when 5,709 apartment units applied for conversion. One year later, as of November 1980, the figure increased three times to 15,578 conversions. It is probably now at about 18,000 conversions, and that represents 6 percent of the State's total housing stock that could potentially be converted to condominiums.

In one city, Fort Lee, N.J., one-third of the city's rental housing stock has been converted. Tenants are now organizing and fighting back but, if they don't get some help, more than half of the rental



units will be converted into exorbitantly priced housing in the next couple of years.

New Jersey statistics also expose the myth that condominium conversions only occur in luxury buildings or certain areas. That is not true. Initially conversions were almost exclusively taking place in the northern part of the State, in Bergen County, and in large luxury apartments. Now 57 cities in New Jersey in a majority of the counties have been affected by condominium conversion. More and more housing of less than luxury standards is being converted. What is frightening is that these moderate income rental units are being converted into luxury-priced housing. The average sale now is \$64,000.

There is no question that as long as New Jersey's vacancy rate remains so low, and in some communities it is nil, and the Federal Government fails to intervene, this trend will accelerate. These are some of the statistics.

I assume that you have heard testimony from individuals who have suffered severely from this trend.

I want to tell you of a tenant that I know in Hackensack, N.J., who lost his job. He sold his home to open up a small business, and he used the equity from his house. Shortly after he became a tenant, he was hit with a conversion notice. Now he has a choice to either sell his business to buy his home or he keeps his business and has no place to live.

The choices available to tenants in New Jersey as a result of the conversion crisis, the sudden notice to buy or move, leaves them with no alternatives.

What about the possibility of buying? What are the possibilities of tenants in New Jersey buying their condo? After a conversion the monthly price increase from 36 to 100 percent. Most tenants cannot afford those increases.

Let me give you some statistics. The recent HUD study estimates that 47 percent of the tenants cannot afford to buy. Half of those who purchased preferred to rent.

When we look at the tenant income we understand why they cannot afford to buy. The median income of renters nationally is about \$8,000 or \$9,000. In New Jersey tenants average about \$9,000. The average sale price of a conversion, this so-called inexpensive form of homeownership, is \$64,000. When you compare the sale price, \$64,000, of converted condominiums with the income data of the average tenant in New Jersey, \$9,000, it becomes quite clear that most tenants cannot afford to purchase these units.

Moreover, most tenants will be effectively priced out of their units simply by their inability to secure mortgage financing. According to the National Association of Homebuilders, in order to qualify for a \$60,000, 30-year mortgage, a family must have an annual income of \$47,000. We are talking about \$47,000 on the one hand if one is to get a mortgage, and on the other hand, we are talking about an average income of \$9,000. According to the National Association of Homebuilders, less than 6 percent of all households in the United States are able to qualify for a median-priced home of \$65,000. These facts also expose the myth that condo conversion provides a cheap alternative to buying a home. It

is cheaper but only in terms of what you get, not in terms of the price.

Therefore, if you cannot buy, what do you do? Tenants could move, but in New Jersey tenants will be faced with skyrocketing rents. Rents continue to go up. And if they move to another place, what is to stop that new place from being converted into another condominium?

In some communities in New Jersey—I have the statistics on the vacancy rate attached to my statement—there are no vacancies. There is no place to go. They have to move out of those communities.

We know that condominium conversions are inflationary. We know that the mere act of conversion boosts the price of housing. The possibility of conversions means that the sale price of the apartment is worth more, and, therefore, the rents that people will have to pay go up.

We know that condominium conversions are speculative adventures. They don't produce new housing. As long as it is more profitable to convert than build, investors and developers will go to the mortgage markets, the capital markets, and they will take scarce money that is available for housing and put it into these speculative adventures which further inhibits the construction of new housing. In fact, conversions in New Jersey are outpacing new construction.

I think it is very important to understand that what we are talking about here is a basic necessity. It is not like yachts, microwave ovens, and expensive cuts of steak.

Housing is even different from other necessities. Food and clothing contain an element of flexibility. If the cost of food goes up, a family can adjust. They can eat meat once or twice less in a week or choose cheaper cuts of meat. If the cost of clothing skyrockets, a family will simply buy less or borrow or do with what they have.

However, when the cost of housing in a family's budget goes up, we are dealing with an inflexible item in the family budget. If the price of one's home increases significantly, the family can cut into their luxuries and then their necessities. After they have cut back on food and clothing, theoretically they can uproot their family and move to less expensive quarters, but in times of a critical housing shortage when you have vacancy rates like we have in New Jersey which in many places are nil, that alternative is not available.

That is why the New Jersey Tenants Organization has placed the control on condominium conversions at the top of its legislative agenda. We feel that condo mania is the most dangerous phenomenon facing tenants.

As a matter of public policy, conversions do not improve the quality of housing nor do they increase the supply of housing. It is a speculative venture that merely drives up the price of existing housing.

New Jersey laws, which simply provide some notice before evictions, are completely inadequate. They simply tighten the noose more slowly around the tenant's neck, postponing the tenant's inevitable choice to buy or move out a year or two later. It does not provide the tenants with more choices. It does not halt the shrinkage of the city's or State's rental housing supply. At the end of that

year or two tenants are simply older and poorer because the price of housing has gone up.

For many New Jersey tenants the day of reckoning is here. The noose is getting tighter. Their time is running out. We need to stop condominium conversions immediately.

In conclusion, condominiums are not necessarily bad. Ownership has many positive features. However, we have a national housing emergency. Vacancy rates are less than 5 percent nationally. Conversions are occurring too quickly. Housing is not being built fast enough and the responsibility of our Government, we say, in the area of housing is first to nourish the growth of affordable housing. The problems associated with condo conversion will diminish when there is an adequate supply of affordable housing in every community. Until that is underway the Government must protect rental housing from becoming an endangered species.

Accordingly, NJTO urges our Federal Government to impose a moratorium on co-op and condominium conversion. Let's get a hold on this thing. Let's stop it and let's study it. Let's find out how we are going to deal with this national housing crisis. Perhaps we should establish a Presidential or congressional commission which would include representatives of consumer groups and tenant groups.

We have to involve the consumers, the victims of the problems, in the solutions of those problems. Then maybe this group can make an assessment of the problem with recommendations including how are we going to build more affordable housing.

All I can say, in conclusion, is if you don't act now, and forcefully, the situation will only get worse. Condo fever will spread across the country, tenants will be displaced, lives will be shattered, purchasers will be left holding outrageously priced housing, and the anger and frustration of people will increase dramatically. We have had two large demonstrations in New Jersey demanding something to be done around condominium conversions. Please help us.

Mr. ROSENTHAL. Thank you very much.

[Mr. Atlas' prepared statement follows:]

STATEMENT OF JOHN D. ATLAS  
VICE PRESIDENT/LEGAL COUNSEL OF THE  
NEW JERSEY TENANTS ORGANIZATION

1. INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, THE NEW JERSEY TENANTS ORGANIZATION APPRECIATES THE INVITATION TO TESTIFY AT THESE HEARINGS CONCERNING THE PROBLEMS OF CONDOMINIUM CONVERSION. MY NAME IS JOHN ATLAS. I AM THE VICE PRESIDENT AND LEGAL COUNSEL OF THE NEW JERSEY TENANT ORGANIZATION (NJTO). I ALSO PUBLISH AND EDIT A NATIONAL HOUSING PUBLICATION CALLED SHELTERFORCE. I HAVE TAUGHT AT RUTGERS UNIVERSITY, SERVE ON THE ESSEX COUNTY EXECUTIVE'S ADVISORY COMMITTEE FOR COUNTY DEPOSITS AND THE NEW JERSEY TECHNICAL ADVISORY COMMITTEE ON MULTIFAMILY HOUSING. I HAVE PUBLISHED A NUMBER OF ARTICLES ON HOUSING AND TENANTS RIGHTS.

I AM HERE TESTIFYING ON BEHALF OF THE NEW JERSEY TENANT ORGANIZATION. NJTO IS THE OLDEST AND LARGEST STATEWIDE TENANT ORGANIZATION IN THE COUNTRY. WITH OVER 75,000 DUES PAYING MEMBERS AND 120 CITYWIDE TENANT ORGANIZATIONS WE ARE REACHING WELL OVER 500,000 TENANTS YEARLY. COALITION BUILDING EFFORTS WITH SENIOR CITIZENS, WOMENS GROUPS, AND LABOR AND ENERGY COALITIONS EXTEND OUR OUTREACH EVEN MORE. AFTER ELEVEN YEARS, NJTO IS EXTREMELY PROUD OF ITS CONTINUING STRENGTH AND COMMITMENT TO BUILDING A BROAD BASED, GRASS ROOTS CONSUMER RIGHTS ORGANIZATION. CURRENTLY, WE ARE ADDING NEW DUES PAYING MEMBERS TO NJTO AT THE RATE OF 1,900 TENANTS MONTHLY.

IN ADDITION, NJTO ALONG WITH SHELTERFORCE AND TENANT GROUPS FROM ALL OVER THE COUNTRY RECENTLY FORMED A NATIONAL

TENANT UNION (NTU). NTU REPRESENTS OVER 100 CITYWIDE TENANT ORGANIZATIONS FROM 25 STATES REPRESENTING MILLIONS OF TENANTS ACROSS THE COUNTRY. (SEE ATTACHED FROM MC CALLS MAGAZINE). THE NTU IS COMMITTED TO BUILDING STRONG STATEWIDE TENANT ORGANIZATIONS IN EVERY STATE.

## II. TENANTS ARE FACING A HOUSING CRISIS IN NEW JERSEY

THE COST OF HOUSING IS GOING THROUGH THE ROOF, AND INFLATIONARY COSTS ARE PRICING ALL BUT THE WEALTHY OUT OF THE HOME BUYING MARKET.

THE COST OF A MEDIUM PRICE HOUSE IN 1970 WAS \$23,000. IN 1976 IT WAS \$48,000 AND NOW IT IS OVER \$64,000. PLACES LIKE BERGEN COUNTY, NEW JERSEY, THE AVERAGE PRICE IS OVER \$75,000. AND IN NORTHWEST NEW JERSEY \$100,000.\*

AS THE PRICES OF OWNING A NEW OR USED HOME SKYROCKETS, MORE AND MORE NEW JERSEY HOUSEHOLDS WILL BE SHUT OUT OF THE AMERICAN DREAM OF A HOUSE OF THEIR OWN AND CAN EXPECT TO LIVE THE REST OF THEIR LIVES AS TENANTS.

THE POOR, URBAN MINORITIES AND THE ELDERLY ARE FAMILIAR WITH THE PLIGHT OF BEING PERMANENT RENTERS. WHAT IS NEW IS THE POST WAR BABY BOOM OF MIDDLE INCOME RENTERS WHO GREW UP EXPECTING THAT THE HOME IN THE SUBURBS WOULD BE THEIRS FOR THE ASKING. IT IS NOT. AND THEIR LIVES AS TENANTS ARE BECOMING INCREASINGLY UNPLEASANT.

TENANTS ARE FORCED TO PAY EXHORBITANT RENTS FOR POORLY MAINTAINED APARTMENTS AND AT THE SAME TIME SUFFER FROM A VARIETY OF LANDLORD ABUSES RANGING FROM OUTRIGHT VIOLATIONS

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\*THE RECORD, MAY 6, 1979, PL.

OF THE LAW TO LACK OF SECURITY AND HARRASSMENT. (SEE ATTACHED APPENDIX A). EVEN IN A STATE LIKE NEW JERSEY WHICH PROTECTS TENANTS AGAINST RETALIATORY AND ARBITRARY EVICTIONS, TENANTS CONTINUE TO LIVE IN FEAR OF UNAFFORDABLE RENT HIKES, ARSON, LOSS OF ESSENTIAL SERVICES AND EVICTIONS BECAUSE OF THE UNEQUAL POWER RELATIONSHIP THAT EXISTS BETWEEN TENANTS AND LANDLORDS.

TENANTS NOW FACE A NEW AND PERHAPS THEIR MOST FRIGHTENING ENEMY: CONDOMINIUM CONVERSION.

### III. NEW JERSEY CONVERSION: AN ACCELERATING CRISIS

LET ME BEGIN WITH THE COLD STATISTICS. THE NATIONAL CONDOMINIUM CONVERSION TREND HIT NEW JERSEY FULL FORCE IN 1979 WITH A TOTAL OF 5, 709 APARTMENT UNITS APPLYING FOR CONVERSION.

BY THE END OF AUGUST, 1980, ONLY 8 MONTHS LATER, THE NUMBER OF CONVERSIONS INCREASED BY ALMOST 2 1/2 TIMES TO 13, 690 UNITS, REPRESENTING ABOUT 5% OF THE APARTMENTS IT WOULD BE FEASIBLE TO CONVERT (BUILDINGS WITH MORE THAN SEVEN UNITS). PRIOR TO 1978 CONDO CONVERSIONS WERE ALMOST UNHEARD OF.

FOUR MONTHS LATER AS OF NOVEMBER 1980, THE FIGURE REACHED 15, 278 CONVERSIONS. NOW IT IS PROBABLY ABOUT 17,00 WHICH REPRESENTS 6% OF THE 300,000 FAMILIES IN NEW JERSEY LIVING IN BUILDINGS OF MORE THAN 7 UNITS.

IN ONE CITY, FORT LEE, NEW JERSEY, 1/3 OF THE CITY'S RENTAL UNITS WERE CONVERTED AS OF APRIL 1979. TENANTS ARE NOW ORGANIZED AND FIGHTING BACK. BUT IF THEY DON'T GET SOME HELP, MORE THAN 1/2 OF THE CITY'S 8,847 RENTAL UNITS WILL BE CONVERTED INTO EXORBITANTLY PRICED HOUSING IN A COUPLE YEARS.

ACCORDING TO THE DEPARTMENT OF COMMUNITY AFFAIRS (DCA) THE RAPID INCREASE IN CONVERSION ACTIVITY HAS SPREAD BOTH GEOGRAPHICALLY AND ECONOMICALLY. INITIALLY, CONVERSIONS WERE ALMOST EXCLUSIVELY TAKING PLACE IN BERGEN COUNTY, THE NORTHERN PART OF THE STATE AND WITH FEW EXCEPTIONS IN LARGE LUXURY APARTMENT BUILDINGS. IN THE FIRST YEAR THAT CONVERSIONS WERE REGISTERED UNDER THE PLANNED REAL ESTATE DEVELOPMENT ACT, 2,404 OF THE 2,796 UNITS CONVERTED WERE IN BERGEN COUNTY. ALSO IN THE FIRST YEAR, THE AVERAGE SIZE OF THE RENTAL STRUCTURE OR COMPLEX CONVERTED WAS 215 UNITS WITH ONLY 6 STRUCTURES OF LESS THAN 100 UNITS INCLUDED. IN THE FOLLOWING SIX MONTHS ONLY 1,025 OF THE CONVERTED UNITS WERE IN BERGEN COUNTY OF A TOTAL OF 3,904. THE AVERAGE SIZE OF THE RENTAL STRUCTURE OR COMPLEX CONVERTED WAS ONLY 150 UNITS WITH 15 PROJECTS OF LESS THAN 100 UNITS.\* 57 CITIES IN NEW JERSEY AND MAJORITY OF THE COUNTIES HAVE BEEN AFFECTED BY CONDOMINIUM.

MORE AND MORE HOUSING OF LESS THAN LUXURY STANDARDS ARE BEING CONVERTED ACCORDING TO DCA. WHATS FRIGHTENING IS THAT THIS MODERATE INCOME RENTAL HOUSING IS BEING CONVERTED INTO LOW INCOME HOUSING. THE AVERAGE SALE PRICE IS ALMOST \$64,000.

THERE IS NO QUESTION THAT AS LONG AS NEW JERSEY'S VACANCY RATE REMAINS ALMOST NIL AND THE FEDERAL GOVERNMENT FAILS TO INTERVENE, THIS TREND WILL ACCELERATE. THIS MEANS THAT UNLESS GOVERNMENT TAKES DECISIVE

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\* TESTIMONY BY JOSEPH A LE PONTE, COMMISSION OF THE DEPARTMENT OF COMMUNITY AFFAIRS, JANUARY 31, 1981.



ACTION. THE FUTURE OF LOW AND MODERATE INCOME HOUSING IN NEW JERSEY IS IN DANGER OF EXTINCTION.

THESE ARE THE STATISTICS. BUT WHAT DOES IT MEAN TO HUMAN TERMS. WHATS HAPPENING TO THE PEOPLE AFFECTED.

WHAT HAPPENS TO SOMEONE LIKE PHYLLIS HOFFMAN FROM FORT LEE, NEW JERSEY. SHE SAYS TO ME, "JOHN I'M FRIGHTENED. I DON'T KNOW HOW I CAN MOVE?" MRS. HOFFMAN IS A 69 YEAR OLD WIDOW WHO LIVES WITH HER SISTER IN A TWO-BEDROOM APARTMENT IN FORT LEE. THEIR BUILDING, OWNED BY THE CENTRAL TOWERS COMPANY, IS TO BECOME A COOPERATIVE. THEIR MONTHLY RENT WOULD ALMOST DOUBLE TO \$850 FROM \$491. THE DOWN PAYMENT FOR THEIR MORTGAGE WOULD BE \$11,550. HOFFMAN, LIKE MANY OF HER NEIGHBORS WILL BE FORCED TO MOVE. "I DON'T HAVE THAT KIND OF MONEY TO INVEST, SO WHERE CAN WE GO? THERE ARE MANY PEOPLE IN THIS BUILDING WHO ARE ELDERLY OR SINGLE PARENTS OF CHILDREN WHOSE ROOTS ARE HERE, WHO CAN MANAGE THE RENT, BUT CAN'T AFFORD TO BUY. I MOVED HERE FROM NEW YORK FOR SOME PEACE AND QUIET. THERE ARE THINGS TO BE DONE HERE. THE LABORERS WILL MAKE US THE BOAT PEOPLE OF AMERICA."

OR WHAT ABOUT THE TENANT I KNOW IN HACKENSACK, NEW JERSEY. HE LOST HIS JOB SO HE SOLD HIS HOME TO OPEN A SMALL BUSINESS USING THE EQUITY FROM HIS HOUSE. SHORTLY AFTER HE BECAME A TENANT HE WAS HIT WITH A CONVERSION NOTICE.

NOW HE HAS A CHOICE. EITHER HE SELLS HIS BUSINESS TO BUY HIS HOME OR HE KEEPS HIS BUSINESS AND HAS NO PLACE TO LIVE.

THEN THERE'S THE TENANT WHO HAS LIVED IN HER COMMUNITY FOR 14 YEARS. SHE RECEIVED A CONVERSION NOTICE AND WILL HAVE TO MOVE OUT OF HER COMMUNITY LOSING HER LONG STANDING ASSOCIATIONS, AND THE FAMILIARITY OF HER NEIGHBORHOOD.

IV. CONDO CONVERSION CAUSES INFLATION, SPECULATION, FORCED BUYING, DISPLACEMENT TRAUMA

THIS FRENZIED CONVERSION TREND BY LANDLORDS AND SPECULATORS MUST COME TO STOP. IT IS EXACERBATING THE EXISTING RENTAL HOUSING SHORTAGE CAUSING SEVERE HOUSING PROBLEMS FOR LOW, MODERATE AND MIDDLE INCOME TENANTS AND FOR OUR SENIOR CITIZENS.

FORCED BUYING, DISPLACEMENT AND TRAUMA:

THE CONVERSION PROCESS, THE SUDDEN NOTICE THAT ONE MUST BUY OR MOVE, PRODUCES A SEVERE, ADVERSE ECONOMIC AND PSYCHOLOGICAL IMPACT ON THE TENANT, WHO MUST EITHER PURCHASE THE APARTMENT AT AN UNAFFORDABLE PRICE OR SEEK OTHER HOUSING IN A MARKET OFFERING FEW ALTERNATIVES.

IF A DECISION IS MADE TO MOVE TO AN ALTERNATIVE RENTAL UNIT, THE TENANT WILL BE FACED WITH SKYROCKETING RENTS, AND CONTINUED UNCERTAINTY OF YET ANOTHER CONVERSION. IN COMMUNITIES THAT

EXPERIENCE EXTENSIVE CONVERSION, THERE IS LITERALLY BE NO PLACE FOR TENANTS UNABLE OR UNWILLING TO BUY THEIR UNITS TO RELOCATE. THE LACK OF ASSURANCE AGAINST CONTINUED DISPLACEMENT HAS A SEVERE IMPACT ON OLDER PEOPLE, MANY OF WHOM WOULD BE ADVERSELY AFFECTED BY BEING FORCED OUT OF THEIR COMMUNITIES.

FOR MANY, REMOVAL FROM THEIR NEIGHBORHOODS IS FRAUGHT WITH PERSONAL, SOCIAL AND CULTURAL PROBLEMS. EVEN IF THEIR HOUSING IS SUBSTANDARD, IT IS OFTEN IN AN AREA OF LONG-STANDING ASSOCIATIONS, FAMILIARITY AND RICHNESS OF RESOURCES. AN ELDERLY PERSON MIGHT BUY HIS OR HER CONVERTED APARTMENT ONLY BECAUSE HE OR SHE DOES NOT WANT TO MOVE FROM THE NEIGHBORHOOD.

HOWEVER, SINCE THE ELDERLY GENERALLY HAVE ABOUT HALF THE MEDIAN INCOME OF THE TOTAL POPULATION, THE OPTION TO PURCHASE IS NOT POSSIBLE. THIS FORCED DISPLACEMENT MAY CAUSE A TRAUMA FROM WHICH MANY TENANTS MAY NEVER FULLY RECOVER.

THE HUD STUDY OF 1974, WHICH INDICATES THAT MOST OF THOSE WHO BUY CONVERTED UNITS EXCEED THEIR EXPENDITURE FOR HOUSING. TOTAL ANNUAL OUTLAY MADE BY TENANT BUYERS ARE TYPICALLY 36 PERCENT HIGHER THAN WHAT THEY PAID IN RENT. THE SAME HUD STUDY INDICATES THAT ABOUT 41 PERCENT OF THOSE WHO MOVED OUT OF CONVERTED BUILDINGS HAD INCOMES WHICH WERE TOO LOW TO HAVE PERMITTED THEM TO BUY THEIR CONVERTED UNITS: 47 PERCENT OF ALL FORMER

RESIDENTS SAY THEY DID NOT PURCHASE BECAUSE THEY DID NOT BELIEVE THEY COULD AFFORD TO DO SO.

TENANT INCOME, LIKE THAT OF THE ELDERLY AS A GROUP, IS ABOUT HALF THAT OF HOMEOWNERS. THE FEDERAL GENERAL ACCOUNTING OFFICE REPORT CITES THE MEDIAN INCOME OF RENTERS AS \$8,800 AND THE MEDIAN INCOME OF HOMEOWNERS AS \$16,000. THE NEW JERSEY DIVISION OF TAXATION DATA FOR 1978 SHOWS TENANT INCOME IN NEW JERSEY AS AVERAGING \$9,041. THE AVERAGE SALE PRICE IN NEW JERSEY CONVERSIONS IS OVER \$66,000 IN NORTHERN NEW JERSEY. IN SOUTHERN NEW JERSEY ITS \$56,000 AND RISING RAPIDLY.

THE AVERAGE SALES PRICE FROM JUNE 1979 TO MAY 1980 WAS \$38,000. SINCE MAY OF 1980 THE AVERAGE PRICE JUMPED \$16,000 TO \$64,000. WHEN COMPARING THE SALES PRICE RANGE OF CONVERTED CONDOMINIUMS WITH THE AVERAGE INCOME DATA OF THE AVERAGE TENANT IN NEW JERSEY, IT BECOMES QUITE CLEAR THAT MOST TENANTS CANNOT AFFORD TO PURCHASE THEIR UNITS. MOST TENANTS WILL BE EFFECTIVELY PRICED OUT OF THEIR UNITS BY THEIR INABILITY TO SECURE THE MORTGAGE FINANCING NECESSARY TO PURCHASE THE UNIT.\* ACCORDING TO THE NATIONAL ASSOCIATION OF HOMEBUILDERS, IN ORDER TO QUALIFY FOR A \$60,000, 30YEAR MORTGAGE A FAMILY MUST HAVE AN ANNUAL INCOME OF \$47,000.

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\* ACCORDING TO THE NATIONAL ASSOCIATION OF HOMEBUILDERS LESS THAN 6% OF ALL HOUSEHOLDS IN THE UNITED STATES ARE ABLE TO QUALIFY FOR A MORTGAGE FOR A MEDIAN PRICED HOME OF \$65,000.

INFLATION:

AS A MATTER OF PUBLIC POLICY, THE MOST DANGEROUS LONG RANGE EFFECT OF THE CONDO CONVERSION BOOM IS THE PUSH IT HAS GIVEN TO INFLATION. THROUGH THE RELATIVELY SIMPLE ACT OF CONVERSION THE PRICE OF A MAJOR SEGMENT OF THE RENTAL MARKET HAS SKYROCKETED. IN ADDITION, THE POSSIBILITY OF CONVERTING VAST NUMBERS OF RENTAL BUILDING INCREASES THEIR SELLING PRICES, WHICH IN TURN INCREASES THE RENT THAT PEOPLE LIVING IN THEM PAY.

SPECULATION BUT NO NEW CONSTRUCTION:

AT THE SAME TIME, IT MUST BE REMEMBERED THAT CONDO CONVERSION DOES NOT PRODUCE NEW HOUSING. IN FACT IT INHIBITS NEW CONSTRUCTION SINCE IT DRY UP THE LIMITED AMOUNT OF CAPITAL THAT IS AVAILABLE FOR THE PRODUCTION OF NEW HOUSING.

IF ITS MORE PROFITABLE TO CONVERT THAN BUILD, INVESTORS AND DEVELOPERS WILL TEND TO SPECULATE IN CONVERSION AND NOT BUILD. THATS WHAT THEY ARE DOING IN NEW JERSEY. CONVERSIONS ARE OUT PACING NEW CONSTRUCTION.

IT REMINDS ME OF THE STORY OF THE TWO SARDINE TRADERS WHO SOLD THE SAME CANS OF SARDINES BACK AND FORTH TO EACH OTHER. AND AS THEY SOLD IT BACK AND FORTH, THE PRICE WOULD GO UP AND UP.

THEN ONE DAY, ONE OF THE TRADERS OPENED UP A CAN AND TASTED A SARDINE AND SAID, "THIS IS TERRIBLE!" "DUMMY" SAID THE OTHER TRADER "THESE SARDINES ARE FOR TRADING, NOT EATING." SO TOO WITH HOUSING. IT HAS BECOME A COMMODITY THATS USED FOR TRADING AND NOT LIVING.

BUT HOUSING IS A BASIC NECESSITY. IT IS NOT LIKE YACHTS, MICROWAVE OVENS AND EXPENSIVE CUTS OF STEAK. HOUSING IS VERY DIFFERENT FROM OTHER NECESSITIES. FOOD AND CLOTHING CONTAIN A VERY DEFINITE ELEMENT OF FLEXIBILITY. IF THE COST OF FOOD GOES UP (AS IT NOW IS DOING) A FAMILY CAN ADJUST ACCORDINGLY. A FAMILY CAN EAT MEAT ONCE OR TWICE PER WEEK LESS THAN USUAL OR CHOOSE CHEAPER CUTS OF MEAT. IF THE COST OF CLOTHING SKYROCKETS A FAMILY WILL SIMPLY BUY LESS AND THE POOR WILL MAKE DO WITH WHAT THEY HAVE.

HOWEVER, THE COST OF HOUSING IN A FAMILY'S BUDGET IS THE ONE INFLEXIBLE INGREDIENT. IF THE PRICE OF ONES APARTMENT INCREASES SIGNIFICANTLY THE FAMILY CAN CUT INTO ITS OTHER ALLOCATIONS FOR FOOD AND CLOTHING. AFTER THEY HAVE CUT BACK ON FOOD OR CLOTHING, THEORETICALLY THEY UPROOT THE FAMILY AND MOVE TO LESS-EXPENSIVE QUARTERS. BUT BY DEFINITION, IN TIMES OF CRITICAL HOUSING SHORTAGES, THIS ALTERNATIVE IS AN IMPOSSIBILITY

ALTHOUGH MOST MEMBERS OF THE NJTO ARE NOT IMMEDIATELY AFFECTED BY CONDOMANIA, THE NJTO HAS PLACED THE CONTROL OF CONDO

CONVERSION AT THE TOP OF ITS LEGISLATIVE AGENDA. WE'VE DONE THIS BECAUSE CONDO MANIA IS THE MOST DANGEROUS PHENOMENA FACING NEW JERSEY TENANTS.

AS A MATTER OF PUBLIC POLICY, CONVERSIONS DO NOT IMPROVE THE QUALITY OF HOUSING NOR DO THEY INCREASE THE SUPPLY OF HOUSING. IT IS A SPECULATIVE ENTERPRISE THAT PRODUCES NOTHING. ALL IT DOES IS DRIVE UP THE PRICE OF EXISTING HOUSING.

V. CURRENT NEW JERSEY LAWS DO ALMOST NOTHING

NEW JERSEY CURRENTLY HAS TWO LAWS WHICH REGULATES CONVERSION. THE EVICTION FOR CAUSE LAW (N.J.S.A. 2A:18-61.11) AND THE PLANNED REAL ESTATE DEVELOPMENT FULL DISCLOSURE ACT (N.J.S.A. 45:22A-21 et seq). THE FORMER TELLS HOW AND WHEN A TENANT CAN BE EVICTED BECAUSE THE BUILDING IS BEING CONVERTED INTO A CONDOMINIUM. THE LATTER REQUIRES COMPLETE AND TRUTHFUL DISCLOSURE TO TENANTS AND OTHER PROSPECTIVE PURCHASERS PRIOR TO CONVERSION.

UNFORTUNATELY, THESE DO NOT RESOLVE THE PROBLEMS CAUSED BY CONVERSIONS. THE EVICTION REQUIREMENTS CONCEIVED AT A TIME WHEN CONVERSIONS WERE RARE DO NOT IN ANY WAY PREVENT DISPLACEMENT. THEY CAN POTENTIALLY DELAY DISPERSEMENT OF TENANT REFUGEES FOR (AT LEAST) THREE YEARS. BUT MANY TENANTS ARE HARASSED OUT EARLIER.

NOTHING IN EITHER LAW PREVENTS CONVERSIONS OR CAUSES CONSTRUCTION OF NEW RENTAL HOUSING. HOUSING COSTS CONTINUE TO



RISE SINCE THE REGULATIONS DO NOT AFFECT CONVERSION TO HIGHER PRICED CONDOMINIUMS.

NEW JERSEY LAW WHICH SIMPLY PROVIDE SOME NOTICE BEFORE TION ARE INADEQUATE. THEY SIMPLY TIGHTEN THE NOOSE MORE , POSTPONING THE TENANTS' INEVITABLE CHOICE TO BUY OR MOVE OUT A YEAR OR TWO LATER. IT DOES NOT PROVIDE THE TENANTS WITH MORE CHOICES. IT DOES NOT HALT THE SHRINKAGE OF THE CITY'S OR STATE'S RENTAL HOUSING SUPPLY. AT THE END OF THAT YEAR, OR TWO, TENANTS ARE SIMPLY OLDER AND POORER--BECAUSE THE PRICE OF HOUSING HAS GONE UP.

FOR MANY NEW JERSEY TENANTS THE DAY OF RECKONING IS HERE THE NOOSE IS GETTING TIGHTER THEIR TIME IS RUNNING OUT.

WE NEED TO STOP CONDO CONVERSIONS IMMEDIATELY.

VI. WHAT ABOUT THE PERSON WHO WANTS TO BUY A CONDO?

LANDLORDS, SPECULATORS AND THEIR SUPPORTERS OFTEN SAY- WHAT ABOUT THE PERSON THAT WANTS TO BUY A CONDO? WE SAY OUR GOVERNMENT SHOULD ENCOURAGE THE BUILDING OF NEW LOW AND MODERATE PRICED CONDOMINIUMS. BUT TO ARGUE THAT PEOPLE WANT TO BUY HIGH PRICED CONVERTED APARTMENTS IS RIDICULOUS.

MOREOVER, MANY PURCHASERS HAVE BEEN DUPED INTO BUYING.

A DEVELOPER WILL OFTEN GIVE POTENTIAL BUYERS A SHEET SHOWING HOW MUCH THEY CAN DEDUCT FOR PROPERTY TAXES AND MORTGAGE INTEREST IF THEY ITEMIZE AFTER BUYING A CONDO. WHAT THEY DO NOT EXPLAIN IS THAT WITHOUT ITEMIZING ANY TAXPAYER DEDUCTS \$2300 (MARRIED \$3400) AND ANY FIGURE GIVEN BY A DEVELOPER TO SHOW TAX SAVINGS SHOULD BE REDUCED BY \$2300/3400 TO SHOW WHAT THE REAL DEDUCTION IS. THEN THAT HAS TO BE TRANSLATED INTO ACTUAL TAXES-AND THE END SAVINGS IS ONLY A FEW HUNDRED DOLLARS. MONTHLY ASSESSMENT FEES ARE NOT TAX DEDUCTABLE.

SECONDLY, MANY PEOPLE ARE WILLING TO BUY AT HIGH PRICES BECAUSE THEY ASSUME THEY CAN QUICKLY RESELL AT AN EVEN HIGHER PRICE. GETTING THESE INFLATED PRICES FOR HOUSING DEPENDS ON WHAT REAL ESTATE DEVELOPERS CALL "THE BIGGER FOOL THEORY." THE BUYER RATIONALIZES IT DOESN'T MATTER WHAT I PAY BECAUSE I'LL FIND SOME BIGGER FOOL A YEAR FROM NOW WHO WILL BUY THE PLACE FOR EVEN MORE. THERE IS, HOWEVER, ONLY SO MANY FOOLS. EVENTUALLY WE WILL RUN OUT OF BIGGER FOOLS AND MANY PURCHASERS WILL BE STUCK WITH HIGH MONTHLY PAYMENTS WHEN CASH FLOWS DROPPED AND NO ONE WILLING TO BUY. THIS IS ALREADY HAPPENING IN NEW YORK.

THIRD, MANY PURCHASERS BOOGY AND ARE GET STUCK WITH SEVERE MAINTENANCE PROBLEMS. PURCHASERS ARE UNAWARE OF STRUCTURAL DEFECTS AND GET STUCK WITH EXPENSIVE MAINTENANCE AND MANAGEMENT HEADACHES THAT THEY DIDN'T ANTICIPATE.

BUT WHAT ABOUT EQUITY BUILD UP AND THE HEDGE AGAINST INFLATION? EQUITY BUILD UP IS OF NO USE TO (A) FAMILIES WITH ROOTS IN THE COMMUNITY WHO DO NOT INTEND TO MOVE OR SELL; TO (B) MOST SENIOR CITIZENS; TO (C) PEOPLE WHO SOLD THEIR HOME AND ARE NOW LIVING OFF THE PROCEEDS FROM THAT SALE; AND OF COURSE TO PEOPLE WHO CAN NOT AFFORD THE EXORBITANT MONTHLY PAYMENT. ALL FAMILIES FROM THE 25-YEAR OLD NEWLY WED COUPLE TO THE 75-OLD WIDOW CAN READILY CONTAIN THEIR ENTHUSIASM FOR REMAINING IN THE UNLOVING EMBRACE OF THEIR LANDLORD. THE LANDLORD TENANT RELATIONSHIP IS BAD. BUT A CONVERSION OF THEIR APARTMENTS INTO CONDOS IS A DISASTER. NONE OF THE ARGUMENTS ABOUT PRIDE OF OWNERSHIP, EQUITY BUILD-UP, INVESTMENT VALUE, TAX DEDUCTIONS, "PARTICIPATION IN GOVERNANCE," MEAN ANYTHING AT ALL UNLESS THE PRICE IS RIGHT.

#### CONCLUSION AND RECOMMENDATIONS

CONDOMINIUMS ARE NOT NECESSARILY BAD. OWNERSHIP HAS MANY POSITIVE FEATURES. BUT IN A HOUSING EMERGENCY SUCH AS THE PRESENT ONE, A CRISIS HAS DEVELOPED WHEREIN CONVERSIONS ARE OCCURRING TOO QUICKLY AND NEW HOUSING IS NOT BEING BUILT FAST ENOUGH. THIS SITUATION ENCOURAGES SPECULATION AND A GREAT DEAL OF SOCIAL AND ECONOMIC DISRUPTION, BECAUSE THE PRICE OF CONDOMINIUMS ARE SO HIGH. HIGHER INTEREST RATES SIMPLY ADD TO THE SOARING COSTS.

THE RESPONSIBILITY OF OUR GOVERNMENT IS FIRST TO NOURISH THE GROWTH OF (AFFORDABLE) HOUSING. THE PROBLEMS ASSOCIATED WITH CONDO CONVERSION WILL DIMINISH WHEN THERE IS AN ADEQUATE SUPPLY OF NEW AFFORDABLE HOUSING IN EVERY COMMUNITY. BUT UNTIL THIS PROCESS IS UNDERWAY--AND THERE IS NO INDICATION THAT THIS IS THE CASE NOW, OUR GOVERNMENT MUST PROTECT RENTAL HOUSING FROM BECOMING AN "ENDANGERED SPECIES."

CONDOMINIUM CONVERSION MAY BE MORE PROFITABLE THAN OWNING RENTAL HOUSING. BUT IT PROVIDES NO MAJOR BENEFITS TO THE VAST MAJORITY OF OUR CITIZENS PARTICULARLY THOSE LOW AND MODERATE-INCOME RESIDENTS WHO DEPEND ON RENTAL HOUSING.

IF YOU DO NOT ACT NOW, AND FORCEFULLY, THE SITUATION WILL ONLY GET WORSE. CONDO FEVER WILL SPREAD ACROSS COUNTRY. TENANTS WILL BE DISPLACED, LIVES WILL BE SHATTERED, PURCHASERS WILL BE LEFT HOLDING AN INCREASINGLY EXPENSIVE UNIT, AND THE ANGER AND FRUSTRATION OF PEOPLE WILL INCREASE DRAMATICALLY

IN THIS THE CASE OF TENANTS OF RENTAL HOUSING RELATIONSHIP STANDS AS A TEST OF OUR IDEALS OF CIVILIAN FAIRNESS AND GOOD FELLOWSHIP. THE TENANT COOPERATIVE AND CONDOMINIUM FORM OF TENURE STAND, AT LEAST IN THE ABSTRACT, AS AN ATTRACTIVE ALTERNATIVE. BUT UNTIL THE INDUSTRY AND INGENUITY OF DEVELOPERS, TENANTS, LENDERS AND THE GOVERNMENT

ARE APPLIED TO THE PROBLEM OF CREATING AFFORDABLE OWNERSHIP MECHANISMS, WE ARE SURELY DESTINED TO SEE TENANTS DISPLACED, PRICED GAUGED AND AN INTENSIFIED CONFLICT OVER THE CONVERSION QUESTION.

N.J.T.O. URGES OUR FEDERAL GOVERNMENT TO IMPOSE A MORATORIUM ON CONDO AND COOP CONVERSION BY USING THE FEDERAL GOVERNMENT'S CONTROL OF LENDERS TO PROHIBIT LOANS FOR CONVERSION OR FOR PURCHASE OF CONVERTED UNITS TO SPECULATORS FOR A THREE YEAR PERIOD.

IN ADDITION WE URGE THE ESTABLISHMENT OF A PRESIDENTIAL COMMISSION TO INCLUDE REPRESENTATIVES OF TENANTS AND CONSUMERS TO MAKE A NATIONAL ASSESSMENT OF THE PROBLEM, WITH RECOMMENDATIONS TO CONGRESS FOR SOLUTIONS.

AT THE SAME TIME, OUR GOVERNMENT MUST SPONSOR TECHNICAL ASSISTANCE TO TENANT GROUPS WISHING TO BUY AND CONVERT THEIR BUILDINGS: THE RESTRUCTURING OF THE FEDERAL MORTGAGE INSURANCE AND SUBSIDY PROGRAMS TO MAKE FINANCING AVAILABLE FOR PURCHASE BY TENANT GROUPS; INCREASED FOCUS BY STATE HOUSING FINANCE AGENCIES ON ASSURING THAT TO THE EXTENT CONVERSIONS TAKE PLACE, ALL TENANTS HAVE ACCESS TO LOW-COST FINANCING, BASED ON NEED AND THE ABILITY TO PAY, AND FINALLY, THE ASSUMPTION OF A LARGE MEASURE OF RESPONSIBILITY BY THE REAL ESTATE INDUSTRY GENERALLY, AND OWNERS OF RENTAL HOUSING SPECIFICALLY, FOR THE DEVELOPMENT

OF STATE AND LOCAL FINANCING PROGRAMS.

UNTIL THE TENANTS ARE ASSURED THAT THE BALANCE IS SHIFTING IN THE DIRECTION OF THE ABILITY OF TENANTS TO PURCHASE THEIR UNITS, OUR GOVERNMENT HAS A STRONG, CLEAR-CUT OBLIGATION TO ERECT COMPREHENSIVE PROTECTIONS ASSURING THAT UNDER NO CIRCUMSTANCES WILL TENANTS BE FORCED TO PAY SPECULATIVE PRICES OR BE DISPLACED BY CONVERSIONS.

## [ APPENDIX A ]

A. TENANTS ARE PAYING EXHORBITANT RENTS

- According to the 1970 census of housing, using the accepted standard, 52% of the renters households in New Jersey pay more than 25% of their income for rent. 85.9% of the elderly and 76% of the Black population are paying rents they cannot afford.

In Newark where 75% of the housing is apartments, families paying over 25% of their incomes for rent rose from 38.6% in 1970 to 43.5% in 1979 according to the New Jersey Department of Community Affairs.

While personal income in metropolitan Newark rose 27% from 1970 to 1975, rents increased by 38%.\*

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\*Housing Needs And Opportunities in New Jersey Cities: Report of the Commission of the New Jersey Assembly to Study the Availability of Adequate Housing in New Jersey with a particular Emphasis on Urban Housing Opportunities, page 11.



In Paterson/Clifton/Passaic area, personal income rose by 33% from 1970 to 1975 while rents increased by 59%.\*\*

Based on 1970 census a staggering 180,709 households devote more than the acceptable maximum of 25% of their income to cover housing costs in New Jersey.

By 1980 we see families spending 35%, 50 and over 80% of their income toward rent. Tenants are caught in an income-price squeeze. Their income is not keeping pace with the rising price of housing. This conflict between peoples' income and the prices of housing results not only in inflationary high rents.

B. DETERIORATED UNITS

The other side of inflationary rents is decreased maintenance. Landlords tend to reduce maintenance, services and repairs before raising rents. From 1960 to 1970, according to U.S. census, dilapidated rental housing increased by over 200% in New Jersey. A staggering 337,678 New Jersey households live in run down housing according to the 1970 census. Based on figures compiled by this subcommittee over 30,000 Jersey City people or families will not have their housing needs met in 1980.

In Newark, 28,584 people or families will suffer from unmet housing needs.

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\*\*Ibid page 11.

C. CONSTRUCTION DOWN

As a result of the cost-income squeeze, houses and apartments are not being built. Between 1970 and 1978 the State produced an average of 40,689 units annually, which by the Department of Community Affairs estimates is almost 60,000 units short of what should be produced to meet state needs.\*

Builders of houses are reporting sales down 50% from a year ago. Economists keep predicting fewer and fewer housing starts. Mortgage banker reports that new loans arranged for builders are down 50 to 60%.\*\*

Rental construction is becoming extinct in New Jersey. Between 1970 and 1973, multi family units represented from 41% to 48% of the total new housing construction in the state, from 1974 to 1977 35% and in 1971 25%.\*\*\*

The private profit motivated entrepreneur has virtually abandoned the construction of apartments unless he receives government assistance. In 1977, the New Jersey Housing Finance Agency financed all privately owned multifamily housing units started in Trenton, and the majority of the units started in Newark, Nersey City and Paterson.\*\*\*\*

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\*Housing Needs And Opportunities in New Jersey Cities, page 10.

\*\*New York Times, March 23, 1980, Section 3 page 1.

\*\*\*Housing Needs And Opportunities in New Jersey.

\*\*\*\*Ibid

On February 27, 1980, Moon Landrieu testified before this Senate Subcommittee on Housing that he could foresee a time when no private rented housing construction will be built without government assistance. In New Jersey that time is now.

D. OLD HOUSING STOCK

The housing stock in New Jersey is old. According to the 1970 census, there were 2.3 million dwelling units in the State of New Jersey, of which 45% were 40 years or older. Housing in the most densely populated counties is considerably older than the state average. In Essex 63% of the housing was built before 1939, Hudson County 77%.

E. LOSS OF RENTAL UNITS DUE TO ABANDONMENT

Much of the housing stock is not being maintained. A 1975 estimate by the Governor's Commission to Evaluate Capital Needs stated that as many as 50,000 units of housing fall into complete disrepair, are abandoned or destroyed by fire each year. Since 1970, the City of Newark has demolished from 422 to 1,690 units of housing each year and there remain hundreds of dilapidated structures which ought to be demolished because they constitute a menace to health and safety.

F. LOW VACANCY RATE

There is a widening shortage of housing, as the formation of households outpaces the number of annual housing starts. With the supply of mortgage money dwindling, mortgage interest rates climbing, new bank regulations threatening to push interest rates even higher, and soaring land prices pushed by speculation, and restrictive zoning the six years of flagging construction we have experienced in the past is sure to continue.

Escalating costs of commuting due to gas price increases has made city living more attractive. This increases the demand for existing housing in older neighborhoods. Gentrification, condominium conversion and abandonment exacerbate the problem removing rental housing from the market, driving up rents in the remaining apartments and uprooting tenants from their communities. The national rental market-4.8 percent vacancy rate has never been tighter. Vacancy rates are nearly nonexistent in some places in New Jersey. Jersey City has a vacancy rate of 3.5%. Newark's vacancy rate is less than 1%.

The housing problem in New Jersey is not new. The Department of Community Affairs in 1975 came to the shocking conclusion that 1.5 million Jerseyans were ill housed or rent poor. With today's inflation and unemployment it is much worse.

APPENDIX B: VACANCY RATE  
NEW YORK AND SURROUNDING AREAS RENTAL VACANCY RATES  
AND UNMET LOW AND MODERATE INCOME HOUSING NEEDS

<u>CITY</u>	<u>VACANCY</u>	<u>HAP NEEDS</u>	<u>UNMET NEEDS</u>
CAMDEN	3.7%	5,736	4,807
ELIZABETH	2.1%	10,492	9,845
JERSEY CITY	3.5%	32,603	30,453
NEWARK	0.9%	31,134	28,584
STAMFORD	0.1%	5,682	4,132
TRENTON	1.5%	7,971	7,531
WATERBURY	6.0%	2,456	-0-
NEW YORK	1.0%	858,980	82,735

FIGURES BASED ON SUMMER 1979 UPDATE OF LOCAL HOUSING ASSISTANCE PLANS

(Above is a chart showing the rental vacancy rates for selected New Jersey cities and the number of rental housing units needed as determined by Local Housing Assistance plans. The figures were compiled by the Senate Housing Subcommittee.)

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## RIGHT NOW

## RENTERS IN REVOLT

Across the country, apartment dwellers are angry—about rent increases, condominium conversions and poor building maintenance—and now they have started to fight back by forming a new network called the National Tenant Union.

"We had become increasingly aware that to protect our interests it was necessary to work beyond the local and state level," says John Atlas, one of the founders of the union and a vice-president of the New Jersey Tenants Organization. Renters can have much more political clout than landlords, he adds, because tenants make up about one third of the total population.

Tenant activism among middle-class renters is a new phenomenon. Since middle-income apartment dwellers have traditionally looked upon renting as a temporary state before buying a house, they never felt compelled to organize. But that is changing dramatically as prices for houses skyrocket.

The situation in Portland, Oregon, illustrates some of the problems renters face. There is no rent control in the city, and rents have risen at least 35 percent in the last year, with some people receiving increases of \$20 to \$30 every three months, according to Avery Leinova, an organizer with the Portland Tenants Union. Condominium conversion is an

other important issue there. Says Ms. Leinova, "For every four new apartment buildings built here, five old ones are converted to condominiums. We're losing our rental units." Tenants in all parts of the country who are unable to buy, or who do not wish to, have fewer apartments from which to choose; this year the construction of private rental housing has reached a new low.

The National Tenant Union was formed last November (under the name of the National Committee for Rent Controls) when 57 tenant organizers from

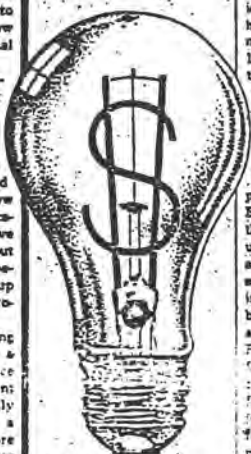
50 cities met in Newark, New Jersey. In June, more than 300 tenant leaders attended workshops in Cleveland, Ohio, on organizing a union, negotiating with landlords and fighting for local legislation.

The immediate goals are to share information among tenant leaders around the country and to fight for local rent controls. Ultimately, John Atlas hopes that the group will become a powerful lobby in Washington, working for income tax deductions for tenants (similar to those given to homeowners); safeguards against condominium and

cooperative conversions; a National Landlord-Tenant Relations Act to protect tenants who organize from harassment (in most states landlords cannot legally evict a tenant for organizing); and the creation of an assistant secretary for tenant affairs at the Department of Housing and Urban Development.

For more information about the National Tenant Union, tenant rights in general and how to organize a local union, write to JOHN ATLAS, EXECUTIVE DIRECTOR, 380 MAIN ST., EAST ORANGE, N.J. 07081.

—SERRA MORGENSTERN



# MAKING BRIGHT IDEAS PAY

When Dallas secretary Bette Mesmith kept making typing errors, she decided to do something inventive about it. She went into her garage and tinkered

with an assortment of chemicals and paints to cover up her mistakes. Five years and many chemicals later—in 1956—she came up with the right mix for Liquid Paper correction fluid, and the rest is history.

Like millions of Americans before her, Bette Mesmith turned necessity into invention, by making a product from a bright idea. But, surprisingly, even though women need and use new products as much as men do, perhaps as few as 2 percent of all patents in the United States have been issued to women, says a spokesman for the U.S. Patent and Trademark Office. (Patenting in the product industry is not limited to their inventions with the federal government, protecting them from being made or sold by anyone else for 17 years.)

One reason women lag behind men in this area may be that most women are not business-oriented. "Women will discuss their ideas with friends, but it rarely occurs to them to try to put an item on the market," says Sandra Colodner, who works for a company in New York that helps people market their inventions. Women also tend to lack the mechanical training needed to make a model of their concept. Women have figured in

the history of inventing, but they have not always received credit. Says Arthur Stanley, an authority on women inventors. Some believe, for example, that a widow who ran a plantation was behind the idea for Eli Whitney's cotton gin.

If you have an idea for a product, make sure that a real need for it exists. "Too many times, people will make something that is just different, not cheaper or better," says Dorothy Stephenson of the Inventors' Association of New England. If you are still convinced of your idea's value, send \$2.25 to the SUPERINTENDENT OF DOCUMENTS, U.S. GOVERNMENT PRINTING OFFICE, WASHINGTON, D.C. 20402, for a copy of "General Information Concerning Patents." Then send in the completed form and a filing fee of \$65 to the COMMISSIONER OF PATENTS AND TRADEMARKS, WASHINGTON, D.C. 20231, where an examiner determines if the item is new and useful. The process takes about 21 months; a registered patent attorney can help you wade through the legal jargon.

After the item is patented, you are on your own to market it. Local banks may help provide capital, but your best bet, advises Ms. Stephenson, may be to go to manufacturers.

—CHUD SCHWELCH

FEB 20 1981



TENANTS DEMONSTRATE — Members of the New Jersey Tenant Organization carry placards as they demonstrate in front of the State House yesterday. The group was pushing for a "Tenant Remedy" bill and the Condominium Conversion Protection bill which are now before the Legislature.

Trentonian Photo By BILL PHILLIPS

Board  
FEB 20 1981



### Tenants seek rights

Several hundred apartment tenants demonstrated at the State House yesterday in favor of several bills they say would protect their rights.

Staff Photo by HERMAN LERMAN



# Condo. Mania

Across the country,  
it's pay up or move out

Peter Dreier and John Atlas

**M**arie Abbott was frightened. The seventy-two-year-old Boston woman, living on a fixed income and partially paralyzed by a stroke, had just received a letter from her landlord informing her that the building in which she had spent the last thirteen years was being converted to condominiums.

"I don't know how I can move," she said. "I'm crippled on one side. I can't walk—I can't even get on a bus. My doctor told me I could have another stroke. I'd just as soon die. I hope I do soon."

In Fort Lee, New Jersey, sixty-nine-year-old Phyllis Hoffman was anxiously debating her choices. The two-bedroom apartment she shared with her sister was to become a cooperative, its \$491 rent increasing to a monthly payment of \$850. "I don't have that kind of money to invest," she said. "I moved here from New York for peace and quiet. Where are we going to go?"

The 800 tenants of the Towne Estates apartment complex in Boston

were asking themselves the same question not long ago. They had received the unexpected news that their complex had been sold to American Snacks, Inc., which operates vending machines, doughnut shops, and hamburger restaurants. The new owner wanted to turn the units into condominiums and had given the tenants thirty days to buy or move. The tenants, who paid monthly rents of \$350 to \$450, would be saddled with monthly payments of \$700 to \$800 for the same units as condominiums.

A few tenants, young professionals and senior citizens alike, contacted the media and several sympathetic politicians, and "condomania" soon became a hot issue in Boston. Within a few weeks the heavy news coverage, a rally of almost 1,000 people, and pressure from tenants led the Boston City Council to pass an ordinance requiring landlords and converters to give tenants one year's notice (two years for seniors and the handicapped) before evicting for condominium conversion.

Versions of these dramas are being played out in most major cities and many

suburbs across the country as the trend spreads to convert rental property to condominiums and cooperatives. The boom in condominiums (in which each unit is individually owned) and cooperatives (in which each owner buys a share in the entire complex) is so new that the U.S. Census counted them separately for the first time in 1980. But it has quickly become a major factor in the nationwide decline of rental housing available to low- and moderate-income people. In November 1979, the U.S. General Accounting Office estimated the country's vacancy rate at 4.6 per cent—the lowest on record—and added that the number

You have been evicted!  
Get out! Do not complain!  
Do not hire a lawyer!  
Go live in the gutter!

Peter Dreier teaches sociology at Tufts University and is a member of the steering committee of the Massachusetts Tenants Organization. John Atlas, an editor of *Shelterforce* magazine, is vice president of the New Jersey Tenants Organization.

**Congratulations! Your building has been converted! You may buy your apartment for only \$80,000!**

of rental units lost through conversion will outstrip the number of new units being built. In most large cities, the vacancy rate is much lower.

Condominium ownership in this country first took hold in vacation areas in the early 1970s. Between 1970 and 1975, the number of condos increased fifteen-fold to 1.25 million units, and by 1980, to more than 3 million. Indeed, condominium construction is the strongest sector of today's housing market, surpassing construction of both single-family homes and non-subsidized rental apartments for the first time in 1979.

But in the late 1970s the conversion phenomenon developed. According to a study released last summer by the Department of Housing and Urban Development (HUD), about 365,000 units have been converted to condominiums since 1970, with 71 per cent of the conversions taking place since 1977. Experts estimate that about 150,000 conversions took place in 1980 alone. According to HUD projections, half the population will live in condos by the end of the century if the trend of conversions and new construction continues unrestricted.

But like Marie Abboit and Phyllis Hoffmann, most renters cannot afford to follow the trend. Studies estimate that one-half to three-quarters of tenants are unable to buy their converted apartments. Those who are forced out usually find inferior housing and higher prices awaiting them elsewhere in the tight rental market. And once they resettle, there is no guarantee that their

new apartments will not be sold out from under them again.

Because of this, the conversion trend is meeting resistance from tenants and senior citizen groups. At first, most tenants are confused and unaware of their political and legal options. But receipt of a "buy up or move" letter—or even the anticipation of one—often prompts them to start talking to their neighbors for the first time. As a result, tenant organizations have mushroomed around the country.

Some tenant groups confront the converters directly. Tenants picketed the eighteen-story Promenade Apartments in suburban Bethesda, Maryland, for five months, frightening off potential buyers and forcing the converter to negotiate the terms of the conversion.

In most cases, however, tenants exert pressure on elected officials for protection. Some cities, including Philadelphia, Chicago, and Washington, D.C., enacted temporary bans on all condominium conversions. Sixteen states and several dozen cities have passed various laws to protect tenants and preserve the rental housing stock. Some prohibit conversions until the vacancy rate increases to an acceptable level so tenants have somewhere to move; others require six months' notice or more before eviction, and still others require landlords to let tenants approve the conversion or to pay their moving expenses.

Some well-intentioned laws may actually backfire, however. Senior citizens claim that in a tight rental market, landlords discriminate against the elderly if they know city laws will make them harder to evict. And in some communities, developers have circumvented tough condo conversion laws by turning apartments into luxury cooperatives. In response, cities have included cooperatives in their laws.

At the Federal level, New York Representative Benjamin S. Rosenthal introduced a bill to impose a three-year moratorium on condo and co-op conversion, to withhold Federal funds from communities that do not provide adequate rental housing, and to estab-

lish a Presidential commission to study the topic.

What is behind the condo phenomenon? Why would landlords want to sell their property, a source of income and power? The answer was summed up in a 1976 HUD report: "The large potential profits which can be made in a relatively short time when compared to new construction make conversion so inviting for investors."

According to *Forbes* magazine, a developer can usually turn a substantial profit in three to six months. The nation's biggest converter, American Invesco of Chicago, bought a thirty-story apartment building now called Outer Drive East Condominiums for \$10 million in 1973, spent \$250,000 on superficial remodeling, and sold the apartments for more than \$14 million—a hefty 44 per cent return on investment. It was also American Invesco that purchased the Promenade Apartments for \$50 million, made cosmetic improvements, and despite tenant picketing, put the co-ops on the market for a total of \$100 million.

The profits are so large and so immediate that banks are happy to finance conversions at 13 per cent, 14 per cent, and on up to 20 per cent interest. An official for Continental Illinois Bank, which financed most of Chicago's big conversions, says, "We love them. The turnover is quick and we're making a lot of money." Consumer groups complain that the banks' love affair with conversion ties up mortgage money that could otherwise be spent on new construction.

Behind the dollar signs are the same investment incentives found throughout the housing industry—an industry built around tax benefits for the most affluent. One such incentive is a measure actually established as a tax reform in 1976: It eliminated rapid tax depreciation for old apartment buildings, which had allowed landlords to shelter large amounts of their rental income. While the measure discouraged the once-common practice of buying old apartments as tax shelters, holding them for a few years, and then reselling them to another high-income investor who would do the same thing, it ultimately prompted apartment owners to

leave the rental market entirely—by selling out to condo converters.

In general, the rental market has not brought apartment owners the profits it once did. Their tenants are, for the most part, those left behind by the rush toward single-family home ownership of the 1950s and 1960s. In 1977, for example, while the median income of homeowners was \$16,000, it was only \$8,600 for renters. Landlords' operating costs have risen, but renters' incomes have not kept pace. As this gulf widens, many landlords feel they must bail out.

The first wave of condominium conversions usually takes place in the more profitable buildings in affluent neighborhoods. The recent HUD study found that most converted buildings had been generating substantial profits as apartments. It is only after this supply has been exhausted that converters go after more marginal buildings.

The effect of conversion is compounded by the failure of both the private and public sectors to build much new low- and moderate-income housing. New rental housing construction slowed to a virtual standstill in

1980, making it the worst year in two decades. The slowdown was due, in part, to the tight monetary policy established last year by President Jimmy Carter and the Federal Reserve Board, which dried up working capital needed to build new housing. But to convert existing housing to condominiums, rental income could still be used as working capital. Thus, conversion has been much safer than new construction.

Under these conditions, condo conversions offer building owners and speculators the quickest path to big profits with relatively little investment or risk. And where there are big profits, there is big business. Most conversions were initially undertaken by a mixture of small-time entrepreneurs and large local realty management firms, but now they are the work of far-flung enterprises. American Invesco alone has converted more than 15,000 units in sixty-three projects across the country. The company has bought up several large Chicago realty companies, a San Francisco firm, plus Colorado's largest commercial real estate enterprise. It has also entered the

New York City market, buying a high-rise on Park Avenue.

The big money draws converters into politics. American Invesco, which has lobbied heavily to stop tenant protection laws, is now under investigation by Rosenthal's Subcommittee on Commerce, Consumer, and Monetary Affairs for possible violation of mortgage lending and campaign finance laws. According to one committee source, the firm spent \$300,000 on lobbying just to keep its records out of the investigators' hands, and another \$200,000 to defend itself in newspaper advertisements.

The profit motive is a logical explanation for the lust for condominium conversions on the part of owners, converters, and banks. But what about the condo purchasers? Why would anyone want to buy an apartment?

The real estate industry claims that the demand for condominiums is rooted in the desire for home ownership. There is some truth to the claim. Most Americans have always wanted their own houses, associating ownership with security—the freedom from eviction or arbitrary rent increases;



postwar policies turned this "American dream" into a reality for many. The Federal Housing Administration established guarantees for single-family home mortgages, stimulating banks to make credit widely available. Federal highway construction projects paved the way for massive suburban development. The Federal income tax law made interest and property tax payments deductible, permitting home owners to pay less tax than renters at the same level.

As a result, home ownership rates rose continually from 44 per cent in 1940 to 55 per cent in 1950, and ultimately to 65 per cent in 1977. Those who continued to rent were largely those who could not afford to buy—the poor, the elderly, the urban minorities.

But that picture began to change as the average cost of a single-family home rose from \$23,000 in 1970 to \$80,000 today. Former developer Jay Janis, who headed the Federal Home Loan Bank Board under Jimmy Carter, has said that only a "privileged few"—about 15 per cent—can still afford to buy a new home.

As a result, many younger renters who planned ultimately to buy a house—especially two-income professional couples—have hopped on the condominium handwagon for fear that if they don't buy something quickly, they will never be able to make a first down payment. Rising gasoline prices and urban gentrification have also made city living more attractive. Those looking for a place of their own as a hedge against inflation, but unable to afford a single-family house, may see a condominium as the only choice. Condos selling from \$60,000 to more than \$100,000 are snapped up by panicked buyers as soon as they come on the market. Chicago realtors have called the situation "mass hysteria."

So while "demand" for condos exists, it is, at least in part, artificial. It is a creation of long-standing Federal policy favoring home ownership, landlord-tenant laws that make renters vulnerable and insecure, and extremely low vacancy rates that create panic buying. Recent Federal policy indicates a tolerance of the situation: the Government-sponsored Federal National Mortgage Association, dubbed Fannie Mae, has taken out

large ads in general-circulation magazines promoting condominiums, for instance. And Moon Landrieu, HUD Secretary under Carter, called efforts to restrict condo conversions "an emotional response."

For some, condominiums seem to be the new American dream. But for many more, they have become a nightmare. Tenants faced with conversion must either move or dig deeper into their pockets simply to keep the same roof over their heads. And even those who initially believe they can afford to buy are often un-

### A fake crisis in housing triggers panic

aware of the long-term costs of owning a condo—especially in buildings with structural defects—and of the management problems that may attend common ownership of the external features of a building. Developers argue that conversion improves the housing stock by providing incentives for maintenance and repair, but many purchasers in fact buy little more than cosmetic improvements, such as an extra coat of paint or a new rug.

In general, condo conversions do nothing to increase the supply of housing, but simply increase the cost. More housing for those of low or moderate income is urgently needed—yet even the private housing industry admits that it cannot provide it, either for rental or ownership. It is simply not profitable enough.

Housing policy can thus go one of two ways:

The housing industry is calling for deeper and deeper subsidies—directly through Federal housing law and indirectly through the tax code—in provide an "incentive" for new construction. But with speculation driving up the cost of land and the Federal Reserve's tight money policy boosting mortgage interest rates, the subsidies would have to be so deep that the housing built could hardly be called "private" at all—except for the private profits it would generate.

On the other hand, the Government could recognize that the housing "crisis" is largely artificial—part of a housing system controlled by bankers, speculators, and land owners who have no incentive for cost containment. The response need not be more public housing where the Government serves as landlord, bankers and real estate interests control local housing authorities, and tenants get caught in a fiscal austerity pinch. Instead of reserving public housing for the poor and regulating the private housing interests, a more comprehensive and democratic approach must be taken.

Alternative institutions, such as non-profit and community-controlled housing cooperatives and housing development corporations, could be set up to construct new housing and rehabilitate old and abandoned buildings. "Sweat equity" and "urban homesteading" programs might be promoted for the same purpose. Mortgage money could be made available by creating state banks, investing Government and union pension funds at lower interest, and supporting the National Consumer Cooperative Bank, a new agency set up to lend money to consumer co-ops that mainstream lenders ignore. Or, to keep the price of land from skyrocketing, anti-speculation taxes and land banking (holding land off the speculative market) could be encouraged. By eliminating costly incentives and subsidies to powerful private interests, such programs would actually cost less and give residents more long-term security and financial control over their housing.

As the trend toward condominiums shows, traditional housing policy that frames the issues in terms of home ownership versus rental housing has become obsolete. It needs to be replaced with an equation that considers what people want out of the places where they live—affordability, security, and a sense of control.

For further information regarding tenant rights, contact the National Tenants Union at 380 Main Street, East Orange, NJ 07018.

Mr. ROSENTHAL. Mr. McDonough.

**STATEMENT OF JOHN McDONOUGH, ACTING DIRECTOR,  
MASSACHUSETTS TENANTS ORGANIZATION**

Mr. McDONOUGH. Thank you, Mr. Chairman.

My name is John McDonough. I am the acting director of the Massachusetts Tenants Organization. The New Jersey Tenants Organization is the oldest statewide tenants' organization in the country. I believe we are the newest. We formed several months ago. We represent tenants in about 20 cities and towns across the State. The epidemic of conversions that is engulfing Massachusetts right now is one of our major priorities. We believe it is creating severe hardships for all kinds of tenants, for poor tenants, minority tenants, elderly, disabled, and tenants with children.

There have been over 12,000 units converted in our State since 1970. The huge majority of those conversions have happened since 1977. As the number increases every year, conversions are affecting more and more persons in widely varying circumstances. We would like to give you some recent examples of condominium conversions and condo mania in Massachusetts because we believe they are harbingers of the future in a number of ways.

In one small coastal community in Massachusetts below Boston, Duxbury, a community of about 10,000, six elderly women, ranging in ages from 73 to 92 with combined tenancies of over 100 years, are now facing eviction from their homes because their home was bought for condo purposes. The building was bought for \$250,000. After minor alterations, the owner expects to gross more than \$400,000 from the sale of the six units. In the meantime he has increased their rents from \$265 a month to \$395 a month. All six women will be forced to move.

We believe that this illustrates the condo conversions, at least in Massachusetts, are no longer simply an urban problem. It is spreading out all over the State into small communities to people who never thought that condo conversions would hit their town.

In Braintree, which is a southern suburb of Boston, a State-subsidized 324-unit development built with State funds to provide housing for low and moderate income families was recently threatened with condo conversion. The complex was financed by the Massachusetts Housing Finance Agency, and was taken over by MHFA after the owner defaulted on his mortgage payments.

At the foreclosure sale last month, the original owner bought the building back under a different company and announced his intention to convert all units to condos, thus displacing at least two-thirds of the building's present occupants. That plan was derailed because of public outcry, but the possibility that can happen is still there.

Given the circumstances of condo fever in Massachusetts, it is likely that it will happen again.

In Boston last year our city council passed an ordinance giving 2 years' notice to all tenants who are elderly or poor and 1-year notice to all other tenants before they can be evicted for condo purposes. The result of this "stay of execution" according to tenants all over the city has been a wide range of tactics designed to drive tenants from their homes. These tactics include changing



locks on doors without notification, frequent and unannounced utility shutoffs, landlord inaccessibility, verbal threats, and refusal to make necessary repairs in buildings having problems they never had before. In addition, in some Boston neighborhoods, there has been a 400-percent increase in significant fires and arson since the notice provision was enacted, with a high proportion of those burned out buildings being renovated into condominiums after the fires.

These are a couple of examples which show you the directions that condo mania is going in Massachusetts. I could sit here all day and give you individual stories of how tenants have suffered. I have included some of those stories in my statement and for time-saving purposes, I will skip those stories.

Mr. ROSENTHAL. Without objection, your entire statement will be included in the record.

Mr. McDONOUGH. Right. We do want to emphasize, based on our experience in Massachusetts, some of the facts relating to condo conversions which we believe are indisputable.

One, condo conversions throughout Massachusetts are rapidly accelerating. A Boston Redevelopment Authority report last year notes that:

In the early part of the 1970's it took 5 years to create a thousand condominiums; by 1979, it took less than a year to create the same number.

Wealthy, out-of-State investors and corporations are now coming into Greater Boston and Massachusetts to carry out conversions of major complexes. The number is growing every year.

Two, existing residents are being displaced by condo conversions. Local studies have shown that 50 to 70 percent of tenants cannot afford to buy their units as condominiums because the costs usually result in monthly payments 100 to 200 percent higher than their current rents. While 56 percent of Massachusetts tenants have incomes less than \$10,000 a year, the average income of condo buyers in Greater Boston is between \$25,000 and \$30,000 a year. Typical condo buyers are young, affluent, white, and childless. The emotional and social costs of being displaced, we believe, cannot be measured in dollars and cents.

Three, very few apartments in Massachusetts now are available for those people who are displaced by condominium conversion. While the national rental housing vacancy is at an all-time low, it is even lower in Massachusetts; 26 of the State's 30 largest cities have vacancy rates of below 5 percent; in the major cities, such as Boston, Worcester, Fall River, and Cambridge, the rate is below 2.5 percent. Of our State's annual need for 40,000 new units of housing, less than 20,000 were actually built during the 1970's; meanwhile, family public housing is becoming unavailable as a resource for most families who need it.

Four, people who are being displaced by condos can't afford the housing which is now available. For one-bedroom units, the median rent in Boston now is \$325; for two-bedroom units, the median rent is \$445; and for three-bedroom units, the median rent is over \$500. A real estate broker was recently quoted in the Boston Globe a few weeks ago as saying.

You really don't get that much for your money in rent these days. The standard of a week's pay for a month's rent doesn't apply anymore.

Five, condo conversions do not produce more housing. Conversions of rental housing to condominiums both reduces the supply of rental housing, thus contributing to inflation in housing costs for all other apartments, and inhibits the construction of new housing. Housing construction in Massachusetts, as I said, is half what is required to keep up with the growing need. Condo conversions add to this problem by diverting capital into the conversion of existing buildings instead of into new construction, which is what we really need in our State right now.

What is the appropriate response to this crisis by government on the local, State, and Federal level? Many lawmakers in Massachusetts have been asking themselves that question for some time now.

In at least 12 cities and towns across our State, local governments have taken steps from requiring converters to obtain permits before converting apartments to allowing tenants to have 1- or 2-year notices before eviction. As evidenced by the Boston example, these measures have achieved mixed success at best. The Massachusetts Tenants Organization is now actively promoting a bill in the State legislature which would outlaw condominium conversions in cities and towns with low vacancy rates. We have received heartening support for this measure from the legislature's urban affairs committee which is most affected by this problem. We expect considerable difficulty when the bill reaches the full legislature because of the high number of legislators who are from areas where condominium conversion has not reached them yet.

We believe that the lessons from Massachusetts, New Jersey, California, and Illinois should put other States on notice. What started as a small problem in Boston and a few larger, more affluent cities, has now spread across the State. Unless action is taken quickly, the 12,000 conversions we have experienced in Massachusetts will be viewed a few years from now as only the tiny tip of the iceberg. Unless Congress begins to seriously address this problem and the related problems of the serious housing shortage in this country, then the experience in our States will also be viewed as merely the tip of the iceberg a few years from now.

Thank you.

[Mr. McDonough's prepared statement follows:]



THE CONDOMINIUM CONVERSION CRISIS IN MASSACHUSETTS

Testimony for the Subcommittee on Commerce, Consumer and Monetary  
Affairs, Government Operations Committee, March 31, 1981

John McDonough, Massachusetts Tenants Organization, Acting Director  
150 Lincoln Street, Boston, MA 02111 (617) 426-3951

My name is John McDonough; I am Acting Director of the Massachusetts Tenants Organization, a new statewide organization formed to defend the rights of the two and a quarter million tenants in Massachusetts. We formed late last year because of the unprecedented crisis now facing tenants in finding decent and affordable rental housing in our state. Our work is made much harder because of the epidemic of condominium conversions engulfing our state -- an epidemic which is creating severe hardships for all kinds of tenants, poor, minority, elderly, disabled, and tenants with children.

There have been over 12,000 units converted in our state since 1970, the huge majority of those occurring since 1977. As the number increase every year, conversions are affecting more and more persons in widely varying circumstances. Before talking about the broader issues relating to condo conversion, I'll like to give some specific examples as they have occurred in our state:

-- in Duxbury, an upper middle class coastal community of 10,000, six elderly women, ranging in ages from 73 to 92, with combined tenancies of over 100 years, are now facing eviction because their old homes was bought for condo purposes. The building was bought for \$250,000; after minor alterations, the owner expects to gross more than \$400,000 from the sale of the six units. The tenants, none of whom can afford to buy their units, will soon be forced to move. Meanwhile their rents have been increased from \$265 to \$395 per month.

-- in Braintree, a southern suburb of Boston, a state subsidized 324 units development, built with state funds to provide housing for low and moderate income families, was recently threatened with condo conversion. The complex was financed by the Mass. Housing Finance Agency, and was taken over by MHFA after the owner defaulted on his mortgage payments. At the foreclosure sale last month, the original owner bought the building back under a different company and announced his intention to convert all units to condo, thus displacing at least two thirds of the building's present occupants. The plan has been halted because of public outcry, but the possibility that this could happen again remains.

-- in the Back Bay neighborhood of Boston, 85 year old Hester Hurlbutt, a 60 year resident of her community, was given notice to move along with other tenants in her building. Though she has a one year notice before she can be evicted, the landlord has announced his intention to increase hers and all other tenants rents from \$276 per month to \$1077 per month.

-- in Boston, the city council passed a law last year giving two year notice to elderly and low income persons facing condo evictions and one year notice to all other tenants. The result of this "stay of execution" according to tenants across the city has been a wide range of tactics to drive tenants from their homes including: changing locks on doors without notification, frequent and unannounced utility shut-offs, landlord inaccessibility, verbal threats, and refusal to make necessary repairs in buildings having problems

they never had before. In addition, in some Boston neighborhoods, there has been a 400 percent increase in significant fires since the notice provision was enacted, with a high proportion of the burned-out buildings being renovated into condominiums after the fires.

These examples do not give you an accurate picture of the suffering which individual tenants have faced because of "condomania." I could spend all day giving examples; but these will suffice:

-- one woman, 70 years old, lives on her monthly social security check of \$325. A former maid at a local hotel, she has no savings and has lived in the same rooming house for 18 years, paying \$140 a month. An eviction notice for condo conversion made a shambles of her life. The owners harassed her continuously, threatened demolition, and repeatedly failed to provide heat, leaving her to spend daylight hours shivering in bed. The woman began to live in constant dread, her arthritis worsened, and she contracted chronic bronchitis. Unable to move into public housing, she finally found a grim and depressing room in a rundown and nearly condemned building.

-- one man, 67, a decorated veteran of World War II, lived for four years in a rooming house until his rent was increased \$100 so that tenants would be forced out to make way for condos. He couldn't pay the increase and was evicted. For weeks, he slept in the lobbies of institutions such as Mass. General Hospital, and spent his days trying to find a place where he could afford the rent. Legal Services attorneys who worked with the man say he has disappeared from sight.

-- another woman, 63, lived in her home on social security disability for four years. She worked as a maid until she became disabled by a heart condition and emphysema. When her building was bought for condo conversion, the owners tried to frighten everyone out immediately. The landlord stopped all deliveries, and turned off fuses so that the food in her refrigerator spoiled. He refused to repair the front door lock or to replace hallway lights. One night, an intruder mugged her in the hallway; as she fled down the dark hallway, she tripped and fell down 14 wooden stairs to the entrance. The owner allowed garbage to be dumped in the apartment below her, and her apartment became overriden with rodents. This woman was a competent, cheerful, rational person before the investors bought her building. By the time a subsidized apartment was finally found for her, she had become depressed and hysterical, and spoke often of her terror and wish to die.

As I said, these are just a few of the stories which illustrate the problems faced by the victims of condominium conversions. The condo conversion debate symbolizes the question of the just balance between the prerogatives of private ownership and social need. From our view, the fundamental issue in this debate is whether or not decent and affordable housing will be available for those who need it. In analysing this controversy, we feel that several facts are indisputable:

1. Condo conversions throughout Massachusetts are rapidly accelerating. A Boston Redevelopment Authority report notes that "in the early part of the 1970s, it took five years to create a thousand condominiums; by 1979, it took less than a year to create the same number." Wealthy, out of state investors and corporations are now coming into Greater Boston and Massachusetts to carry

out conversions of major apartment complexes.

2. Existing Residents Are Being Displaced by Condo Conversions.

Local studies have shown that 50 to 75 percent of tenants cannot afford to buy their units as condominiums, because the costs usually result in monthly payments 100 to 200 percent higher than their current rents. While 56 percent of Massachusetts tenants have incomes less than \$10,000 a year, the average income of condo buyers is between \$25,000 and \$30,000. Typical condo buyers are young, affluent, white, and childless. The emotional and social costs of being displaced cannot be measured in dollars and cents.

3. Very Few Apartments Are Available For Those Displaced By Condos.

While the national rental housing vacancy rate is at an all-time low, it is even lower in Massachusetts; 26 of the state's 30 largest cities have vacancy rates of below five percent; in the major cities, such as Boston, Worcester, Fall River, Cambridge, and Quincy, the rate is below 2.5 percent. Of our state's annual need for 40,000 new units, less than 20,000 a year were built during the 1970s; meanwhile, family public housing is becoming less and less available as a resource for poor families. (See attached chart)

4. People Displaced By Condos Can't Afford The Housing Which Is

Available. For one-bedroom units, the median rent in Boston now is \$325; for two-bedroom units, the median rent is \$445; and for 3 or more bedroom units, the median rent is over \$500. Large families who are displaced find that, in fact, there are hardly any large, private rental apartments available at all. Nearly 90 percent of available apartments in the Boston area have two bedrooms or less. Meanwhile, at least 40 percent of all tenants in the state are paying more than 25 percent of their incomes in rent. A real estate broker was recently quoted in the Boston Globe as saying, "You really don't get that much for your money in rent these days ... The standard of a week's pay for a month's rent doesn't apply anymore."

5. Condo Conversions Do Not Produce More Housing. Conversions of rental housing to condos both reduces the supply of rental housing, thus contributing to inflation in housing costs for all other apartments, and inhibits the construction of new housing. Housing construction in Massachusetts is half what is required to keep up with the growing need. Condo conversions add to this problem by diverting capital into the conversion of existing buildings instead of into new construction, which is what we really need now in our State.

6. Condo Conversion Is Not Caused By a 'Distressed' Housing Market.

A recent study by the Department of Housing and Urban Development showed that most apartments were very profitable prior to conversion. It is only after this supply has been exhausted that converters go after more marginal buildings. Likewise, the HUD study concluded that rent control was not the cause of condo conversions, noting that Denver, Chicago, and other cities without rent control were also experiencing widespread conversions.

What is the appropriate response to this crisis? Many law makers in Massachusetts have been asking that question for some time now. In at least 12 cities and towns across the state, local steps have been taken, from requiring converters to obtain permits before converting apartments to allowing tenants one or two year notices before eviction. As evidenced from the Boston

example, these measures have achieved mixed success at best. The Mass. Tenants Organization is now actively promoting a bill in the State Legislature which would outlaw condominium conversions in cities and towns with low vacancy rates. We have received heartening support for this measure from the Legislature's Urban Affairs Committee. We expect, however, considerable difficulty when the bill reaches the full Legislature, because of the high number of Legislators from rural areas of the State.

We believe that the lessons from Massachusetts, New Jersey, California, and Illinois should put other state's on notice. What started as a small problem in Boston and a few larger, more affluent cities, has now spread across the state. Unless action is taken quickly, the 12,000 conversions we have experienced in Massachusetts will be viewed a few years from now as the tiny tip of the iceberg. And unless Congress begins to seriously address this problem, and the related problem of the serious housing shortage in this country, then the experience in our states will also be viewed as merely the tip of the iceberg a few years from now.

VACANCY RATES AND CONDO CONVERSION ACTIVITY IN THE 30 LARGEST CITIES AND TOWNS IN MASSACHUSETTS

<u>City or Town</u>	<u>Vacancy Rate</u>	<u># of Conversions to Date</u>
Arlington	0.5%	190 units (1979-80)
Boston	2.0	Approx. 5000 units
Brockton	4.0	none to date
Brookline	1.2	4350
Cambridge	0.5	Approx. 2400
Chicopee	2.3	One building in progress
Everett	less than 1.0	none to date
Fall River	2.5	none to date
Fitchburg	5.0	none to date
Framingham	1.5	over 600
Haverhill	7 to 10	6 units
Holyoke	5 to 7	none to date
Lawrence	4 to 5	"expect them to start in few months"
Lowell	1.0	one 40 unit complex
Lynn	7.1	15 to 20 buildings
Malden	1.0	several small buildings
Medford	2 to 3	111 units (1980)
New Bedford	5.3	none to date
Newton	1 to 2	300 to 400 units
Peabody	0.1	"a few units to far"
Pittsfield	3.0	two bldgs. so far
Quincy	less than 5.0	"a few bldgs., just beginning"
Revere	under 4.0	several small bldgs., one 40 unit bld.
Salem	1.2	26 buildings
Somerville	2.0	70 units
Springfield	5.3	1 major complex
Waltham	less than 1.0	62 units
Watertown	less than 1.0	101 units
Weymouth	less than 5.0	none to date
Worcester	2.4	six buildings

(Most vacancy rates are 1980 figures; some are estimates by local planning officials.)

(Most cities do not have up-to-date figures on conversions. Local planning or assessing officials estimated the number of conversions completed so far, but most reported that these figures were conservative estimates.)

# Boston's aim to slow evictions appears to have backfired

## THE CONDO SQUEEZE

First in a five-part series  
by Frank Kihanooff  
and Eileen McNamara  
Globe Staff

When Boston city officials approved the present ordinance on condominium conversions, the purpose was to stem a tide that already had swept hundreds of renters from their residences, pitching them into a housing market that was shrinking in size and growing in price.

But that ordinance, which was designed to protect tenants from the financial and emotional disruption of instant eviction, apparently has backfired.

Approved shortly after Christmas 1979, the ordinance requires that landlords provide tenants with a one-year notice before evicting them for conversion purposes. Elderly and handicapped persons whose incomes fall below certain levels are entitled to a two-year notice.

However, say officials, investigators and

tenants around the city, some landlords, apparently unwilling to wait for their tenants to move out, have resorted to a range of tactics to drive tenants from their residences.

Those tactics include frequent and unannounced utility shutoffs, sudden and exorbitant rent increases, verbal threats, refusal to make necessary repairs in buildings that are having problems they never had before, changing locks on doors with little warning and landlord inaccessibility.

Conceivably the ultimate tactic may be arson. Officials, investigators and tenant groups suspect use of that tactic and believe it is attributable to the waiting period imposed on landlords by the ordinance.

In the Back Bay — a prime area for condo developers — "significant" fires have increased by 400 percent since the one-year notification ordinance went into effect, according to data compiled by a federally funded group and accepted by state and local officials.

While no arson-related charges have been brought against any condominium developer

CONDOMINIUMS, Page 18

# Eviction curbs backfire

## CONDOMINIUMS

Continued from Page 1

since the passage of the ordinance, numerous charges of other forms of landlord harassment are being raised.

"The landlords in this city are doing anything they can to circumvent the law," says Boston City Councilman Raymond L. Flynn, who has become the chief proponent of more restrictions on conversion. "Tenants are being harassed in various ways with the idea of getting them out as soon as possible."

But a number of landlords argue that their complaining tenants represent only a small percentage of their total renters. Frederic W. Rust, Jr., who owns close to 1900 units in Brighton, referred to the tenants who have bailed against him as "a small dissident element."

Several property owners claim some tenants are exaggerating the impact of the notification ordinance and that others are blaming the ordinance for other nonconversion-related problems they have been having with their landlords.

Some of the strongest complaints of harassment come from tenants who believe their landlords are trying to drive them out while concealing their intentions to convert, until the current high mortgage rates decline. That way, say some tenants, a landlord can empty his building and avoid the notification process altogether.

As a result of alleged harassment, tenants groups have mobilized in various parts of the city — Back Bay-Beacon Hill, Fenway and Brighton — to focus attention on their landlords, to research their landlords' financial backing, to probe suspicious fires in their landlords' buildings, and to invite investigation of their units by housing and fire code inspectors.

The claims of harassment come at a time when condominium development in Boston has spread from its initial concentration in Back Bay and Beacon Hill to Allston-Brighton, Fenway-Kenmore and Jamaica Plain. A Boston Redevelopment Authority report earlier this month showed that since 1960, when the first condominium master deed was recorded, there have been 440 such deeds filed for 5911 condominium units.

While condominiums currently constitute 2 percent of Boston's 243,000 housing units, the BRA report said, more than half were developed between 1978 and 1980. BRA figures for 1980 show there was a "a leveling off," which housing experts attribute primarily to high interest rates.

But few doubt there will be another surge in development. And when it happens, the BRA report indicates, it is likely to happen at a fast and furious pace. "In the early part of the decade," the report said, "it took five years to create a thousand condominium units; by 1979, it took less than a year."

Some condominium developers have offered generous incentives to move tenants who are entitled to stay during the notification period. One such developer, The Abbey Group, recently negotiated an agreement with a renter in exchange for a waiver of the one-year notification.

In that case, the developer and a tenant in a rent-controlled unit computed the renter's moving costs, the increased cost of living one year in a noncontrolled apartment, a "bonus," and legal fees for the renter's attorney. Robert Epstein, a partner in the Abbey Group, would say only that the settlement was between \$4000 and \$7500.

But such agreements seem to be exceptional.

More frequently, tenants claim, landlords have resorted to thinly disguised efforts to prod them into leaving.

For instance, this winter's unusual cold spell — which plagued homeowners and landlords alike with a rash of frozen pipes — provided a good opportunity for unscrupulous landlords.

"This past winter was a great winter for trying to force people out by not supplying enough heat," said Cornelius Kane, a Boston attorney who has challenged several landlords who have moved to evict tenants.

"When you cut off the heat, the pipes freeze; when the pipes freeze, they burst and suddenly you're flooded. But unless you can prove a deliberate attempt to shut off the heat, a tenant has no case and a developer who plans to gut a building and put in new plumbing gets what he wants with no cost: a tenant-free building."

But it is arson, or the perceived threat of arson, that has most upset tenants in some areas that have been converted or appear ripe for conversion — and has drawn the attention of the Boston Fire Department arson squad, the Massachusetts attorney general's office and other groups.

Urban Educational Systems (UES), a federally funded research group headed by arson specialists David Scodras and Michael Moore, claims that its documentation demonstrates a correlation between the 400 percent increase in significant fires in the Back Bay and the filing of master condominium deeds in the Suffolk County Registry of Deeds.

The UES data, based on Boston Fire Department records, has been accepted as accurate and credible by the Boston arson squad and the state attorney general's office, who have done no similar research of their own.

The 30 "significant" Back Bay fires in 1986 cited by UES include those with a loss of more than \$1000 and cited by the arson squad as incendiary, suspicious or of undetermined origin, and those with losses above \$10,000 where the fire was attributed to careless disposal in vacant units or common areas.)

Fire Department researcher, District Fire Chief John R. Greene, has seen the UES data and finds the correlation logical: "You own a building. You want the people out. Especially with the laws the way they are, a small fire or a large fire serves to get them out."

But investigators have been less successful in making that connection for legal purposes. One landlord has been convicted of torching his own building for conversion purposes, but none has been officially accused since the Boston ordinance took effect.

Nevertheless the arson squad has placed areas in the Back Bay and Brighton under 24-hour surveillance, and joined the attorney general's office in advising tenants to begin nighttime fire watches.

That advice was based on a variety of factors, particularly a recent upsurge in the number of major fires in buildings that later were converted to condominiums or seem most likely to experience conversion in the future.

In one area of Brighton, tenants fearful of arson recently alerted officials to their concern. They brought hammers and nails, and began boarding up vacant units in their buildings.

While the activist tenant groups have focused on a few large developers, Moore of UES says more attention should be paid to the single-building landlords whose buildings have had suspicious fires that forced tenants out, then were converted to condominiums. "A lot of these fires," Moore said, "are in buildings owned by guys who are trying to make their first million."

In recent months, tenant groups in various parts of the city have taken their battles against their landlords into the courts:

- Housing Court Chief Judge George Daher recently cited condominium developer Peter R. Bottal for civil contempt following complaints that he persisted in harassing tenants on Gainsborough street, where he recently bought a block of 42 buildings and announced plans to convert them to condominiums.

- In another case, Robert Ward, property manager for Hamilton Realty, one of the largest residential property owners in Boston, was convicted of setting fire to an inhabited apartment unit in a building he had already begun converting to condominiums. The building belonged to Ward, not Hamilton Realty. The case is being appealed.

While the fire was set long before the notification ordinance went into effect, it represents to tenants an example of how far landlords will go to force out renters who stand in the way of conversion.

- In another matter, the attorney general's office has brought charges of fraud against Frederick W. Rust 3d of Newton. Rust is accused of lying to tenants in an effort to remove them from his building at 362 Commonwealth ave. shortly after a fire of undetermined origins damaged the building.

Rust, who formalized plans to convert the building to condominiums less than three months after the fire, has denied he made any misrepresentations to the tenants. There is no indication that he had any connection with the origin of the fire.

From the perspective of the landlords, the notification ordinance has created problems most tenants do not appreciate — problems which, landlords say, will result in higher costs for consumers. "If you cannot convert, or if there are delays in conversion because of pressure against the developer, there is a lot of additional cost that has to be borne," said Bottal.

"Outside pressures from advocacy groups slow the process down and that's ultimately going to cost the consumer," he added.

At the other end of the spectrum are those who believe no ordinance can defuse age-old tensions between landlords and their tenants. "The harassment was so terrible before the ordinance," said Laura Monroe, staff attorney for Greater Boston Elderly Legal Services, "that I don't know how it could get much worse."

**NEXT: Living in the rubble**



# Filth, noise, insecurity, and

## CONDOMINIUMS

Continued from Page 1

In accordance with Boston's 1979 condominium ordinance, the elderly couple, whose low income entitled them to a two-year notice, was notified last spring that they would be evicted in the spring of 1982 to make room for condominium buyers.

The building's owner offered them a reduced purchase price to buy the apartment before it was put on the market, but they declined. "What do we need a condo-

minum for at our age?" said Betty Kline.

Before she and her husband board the Green Line to get to their downtown watch repair shop at 7 a.m. each day, Betty Kline lines her refrigerator shelves with bottles of tap water to ensure that there will be water for drinking and washing when she returns early in the afternoon, before her husband comes home.

"You never can tell when you leave if the water will be on when you come home. A very nice young

man said he would turn the water on so I could bathe," she said one recent afternoon of a workman whose simple twist of a knob allowed her to take what she said was her first shower in 14 days.

The next day the spigot ran dry once again. "You get used to it," she assured a visitor.

The indignity and danger of their situation has been compounded by a feeling of abandonment since the Klines' last remaining neighbors moved to Canada last week.

"You couldn't live like this for two years," said Florence Cady, who said her fear of thieves made her a prisoner in her first-floor apartment for months before she and her husband Moses left for Canada last Tuesday.

"I'd rather live in Walpole (state prison) than stay here. Our bathroom ceiling fell down when the men were working upstairs. We would have been killed if we'd be in there," added Cady.

"They are tearing the place apart with us in the middle," Betty Kline said, sighing as the silhouettes of three workmen on the balcony appeared on her drawn shades. "It's like a bombed-out building and we are the only survivors. Twenty-one years here and we never had any trouble until this condominium business. It's terrible."

To reach their apartment, the Klines must negotiate concrete front steps littered with broken glass and debris to a plywood-patched lobby door. The door is heavy. But it is no deterrent to a burglar. The front door bell no longer works so the Klines must descend three flights to meet their guests on the front steps at a prearranged time.

"It's all right. We don't have many visitors anymore. I'm too ashamed to have people over," Betty Kline said.

The staircase to the Kline's third-floor apartment is caked with plaster dust as if winds past open units in various stages of rehabilitation. Piles of lumber, rags or the workers' fast-food wrappings fill almost every corner. Long strands of wiring hang from holes in the ceilings and rusty nails protrude from exposed beams and litter the floors.

Steven DiSarro, the owner of the Brighton building, concedes he has "a very difficult problem. I know they are in there and they are be-

# Filth, noise, insecurity, and nowhere else to go

Second in a five-part series on the impact of condominium conversions.

By Eileen McNamara and Hank Klibanoff  
Globe Staff

Before her husband returns from his job as a watch repairman each night, Betty Kline spins down the mahogany banister to the front hall of their Brighton apartment building.

She is methodical in her work, ignoring the falling plaster, the inch of dust beneath her thin slippers and the chilling wind that blows through the gaping holes in the building's walls.

Betty Kline, 79, and her husband Samuel, 86, live in the only apartment still occupied in their Brighton building.

The other 11 units have been vacated during the last four months as the owner began to convert the three-story brick building to condominiums.

Since the carpenters and plumbers began their work last November, heat

and running water have been erratic in the Klines' modest one-bedroom apartment.

After living in the three-story brick building for 21 years, the Klines are now in a state of physical and emotional chaos.

As they approach their delayed retirement, they have no certain home past next spring.

Betty and Samuel Kline, who both lived in Boston apartments since they turned 55 years ago, are victims of the burgeoning condominium conversion market.

Boston's two-year notice requirement, enacted in 1975 to ease the burden on elderly residents forced to find new housing, has actually aggravated an already stressful situation, the Klines contend.

Their story shows the hardship the notice requirement can cause even when a landlord does not try to evade its terms.

CONDOMINIUMS, Page 10

## nowhere else to go

ing a bit inconvenient. It is an extraordinary situation and I admit I'm going to have to do something about it."

At one point, the couple was offered several hundred dollars to leave an offer Samuel Kline says they refused because "What good does his money do us? It doesn't give us a place to live."

When Disarro was asked by a Globe reporter whether he would allow his mother to live in the building in its current state, he said, "No way."

The broken windows and lack of security are an invitation to thieves, Mrs. Kline fears, and with some justification.

The couple was robbed soon after the renovation work began, she said. Upon return from an shopping expedition, Betty Kline discovered her back door wide open, her sterling silverware and some family jewelry gone.

"They took some lovely things. We were very upset. We have no real valuables but they took our lovely silver. Thank goodness, Mr. Kline is very handy," she says, showing a visitor the makeshift wooden bar he has jammed against the back door.

The Klines say they have been especially frustrated by their inability to make contact with their landlord.

"They change the name of the real estate office every week, and the phone number. When I ask the girl who owns the building she tells me, 'You should know!'"

Disarro, who's single, he has never met either of the Klines but claims, "She knows who I am. I talked to her one day when she was hanging out the window."

Betty Kline says they would "go home" if they had any place to go. But where can we find a place at this price? she asks. Their rented apartment costs \$221 per month. Some of their friends, she says, "have moved out, but their apartments cost \$500 or \$600 a month. We can't afford that."

Frustrated by high rents, the Klines are also searching for an apartment in a limited market. Estimates of the vacancy rate in Boston's rental housing vary from 2 percent to 8 percent. Andrew Olins, Mayor Kevin H. White's housing adviser, accepts a tight 5 percent as an accurate figure.

Told of conditions in the Brighton building, Olins said the owner

was previously in "charge of the city's health and housing" and "we think of a situation like this, we'd be out there tomorrow," he said.

But Mrs. Kline says the city is "not interested" and "not taking any action." In several telephone conversations with Peter

CONDOMINIUM MS. Page 11

## Home for 21 years

### ■ CONDOMINIUMS

Continued from Page 10

Bruno of the city's Housing Inspection Unit, Betty Kline said, she received no assistance and little sympathy.

"He wouldn't even send anyone out here unless I could tell him who owned the building," she said. "No one can help us. We have to put up with it until we find a new place."

Efforts to reach Bruno were unsuccessful because he has been ill for the past two weeks, according

to his office. Joseph Longo, another housing inspector, following Bruno's cases, said there was little his department could do because Disarro has been granted a permit to renovate the building. "That's not my jurisdiction. I'm just a housing inspector."

Asked if the lax security and disruption of heat and water service were violations of the city's health or housing codes, Longo said, "I can't say without talking to the tenants and I have not been

able to reach them. You can't lock the doors with construction crews going in and out, can you? I don't know what it's like at night but I'm sure they try to lock up."

The Klines' water problem "is nothing new," Longo said. "You think this is the only case? I get this every day up in the 1800 block, on Washington Street, all over. The guys always turn the water off while construction is going on. But then they go away and forget to turn the water back on. Whenever they do it on purpose, I don't know. Maybe they do. I can't say."

While watching more and more of their neighbors move away, the Klines are intensifying their own search for new housing and reluctantly reminding themselves to the fifth and danger of their surroundings.

"I scrub the banister every night," she says. "I know it doesn't do any good. It will be filthy tomorrow. But Mr. Kline should not have to come home to this. I try to make our home as pleasant as I can for him under the circumstances."

NEXT: The problem of Mrs.

Boston Herald American — Wednesday, March 25, 1981

## Condo ban bill gains, but

What we have here is a failure to communicate. On the one side there's the real estate lobby which views legislation to ban condominium conversion as, uh, un-American, anti-free enterprise.

**Michael Segal**



And there are the tenant and housing advocates who say condo developers would put profit before people, by converting as much of our dwindling apartment rental stock into privately-owned units as quickly as they can get their hands on it.

It doesn't appear this one is about to be resolved through compromise.

But resolved it must be, because the issue is heating up, and because the state legislature now has before it a bill to effectively ban conversion and prohibit tenant eviction in the name of conversion.

Condominium conversion as a public policy issue has come on like gangbusters in recent years. The first attempts at legislation surfaced only last year. The King Administration filed a weak bill that would have provided a grace period to elderly people.

It died in legislative committee when House Speaker Tommy McGee (D-Lynn) realized the legislation would have struck down a Lynn ordinance regulating condo conversion.

A lot has happened in the year since. Most significantly, housing advocates have spent a profitable twelve months propagandizing the issue.

What once was viewed as a Boston, Brookline and Cambridge "problem" is now seen in statewide terms, affecting nearly all Massachusetts communities.

But full credit, much as they might like to accept it, cannot go solely to tenant activists.

A couple of rather spectacular development plans brought the issue to the forefront of public consciousness in recent months: The conversion of Towne Estates in Brighton, and the proposal of a Vancouver, Canada-based firm to sell off Harbor Towers in Boston's waterfront district.

Those two deals would nip off a substantial number of Boston's rental units, and further sharpen the condominium debate.

A recently released analysis prepared by the Boston Neighborhood Network, based at MIT, highlights the extent to which condominium development is occurring throughout the state.

Units are currently for sale in Swampscott, Medfield, Hyde Park, Concord, Winchester, Lawrence, Weymouth, Marblehead, Lexington, Newton, Waltham, Dedham, Medford, Woburn, Chelmsford, Methuen, Lynn, Revere and Quincy.

This rather recent phenomena would not necessarily present problems if affordable rental housing were available, or was being constructed. But that's not the case.

The Neighborhood Network surveyed municipal housing, community development and planning agencies and came up with the following bleak information:

There isn't much rental housing available wherever you look. Here are just some of the local apartment vacancy rates taken from the study: Boston 2 percent, Worcester 2.4 percent, Lowell 1 percent, Salem 1.2 percent, Brookline 1.2 percent, Cambridge 1 percent, Framingham 1.5 percent, Springfield 5.3 percent and Lynn 7.1 percent.

You're not about to "Make It in Massachusetts" if you're in the apartment rental business, not with those figures.

The tenor of the condo conversion debate has intensified this year. Not content with legislation that would merely give a one-year notice to tenants that their apartments were being put on the auction block, tenant groups have

banded together to delay conversion until that time when the rental housing market improves.

Notification bills or local ordinances may be fine for the Ed King and Kevin White Administrations and the Greater Boston Real Estate Board, all of which are on record in support of, but would actually do nothing for tenant groups.

According to housing attorney Frank Smizick, who helped draft the get-tough bill presently before the legislature's Urban Affairs Committee, "notification only amounts to a stay of execution."

Sooner or later notified tenants are going to have to come up with the money to purchase their units, or pack up and leave.

In addition to its by-now acceptable notification provisions, the bill would prohibit conversion in any municipality that has an apartment vacancy rate lower than 8 percent. That means Boston, Lowell — all the cities cited above.

The bill also would outlaw tenant evictions where condo conversions were permissible if the eviction was accomplished for the purpose of conversion.

Surprisingly, the bill is likely to receive a favorable report from the Urban Affairs Committee. That's a state of affairs none too pleasant for real estate lobbyist Ken O'Rourke and his clients.

"The whole thing stinks" is about as generous as the usually mild mannered O'Rourke can be about the bill. He perceives the heretofore friendly Urban Affairs Committee as "stacked against us," and about to pass a bill that is a "blatant, unmitigated act in opposition to real estate market forces."

Them's fightin' words.

O'Rourke's dilemma does not stem from any truth that the Committee is anti-industry, as he characterizes it.

No state legislative committee is anti any industry whose activity it oversees: Bankers generally run roughshod over the Banks and Banking Committee, insurers

A free exchange of ideas on the issues of the day

FORUM

lobbyists look to inside game

have no floor equivalent to the Insurance Committee. In fact, one could say even the Liberal Human Services and Elderly Committee fairly well accommodates the service delivery industry.

So why the O'Rourke anger? Tenant activists put it simply. Condo-ban legislation is an idea whose time has come, and not even the Massachusetts legislature can ignore the problem any longer.

Municipal governments haven't. Local ordinances, some valid, others struck down by higher legal authority, have popped up in a number of cities and towns.

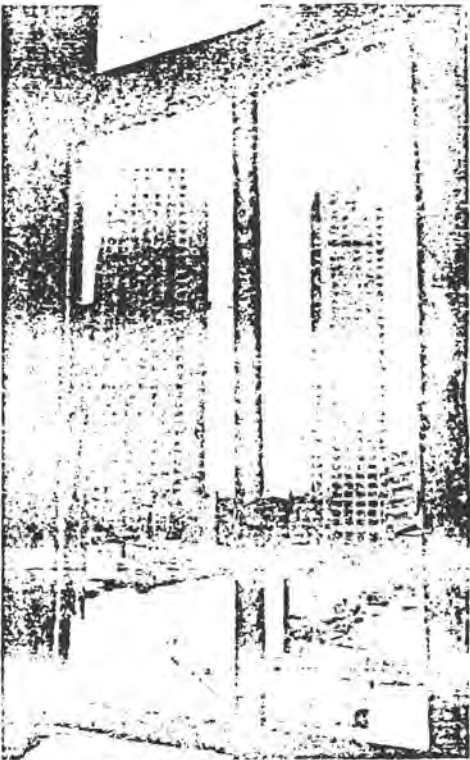
Boston, Cambridge, Watertown, Acton, Framingham, Lynn, Malden, Lowell and Melrose all have adopted measures regulating conversion in one fashion or another, and others are soon to follow suit.

The message finally is being heard on House Hill. Earlier this year, Michael Morrissey (D-Quincy) got tired in the usually perceived in the pensioner camp. Urban Affairs Committee vice-chairman Morrissey started to hear about the affects of conversion in his hometown. "When you don't have the problem," he told us, "you tend not to see it."

This year, if and when the activists get on full scale, the floor of the House of Representatives. Mike Morrissey will lead the effort for passage.

"If" is the operative word. Assuming the Committee reports the bill favorably out, it will then wend its way through a series of legislative committees and one of which could prove to be a more than adequate barrier.

When asked who would assume the task of trumpeting the real estate industry's banner on the floors of the House and Senate, Ken O'Rourke advised it may be premature to assume the bill would get that far. The implication is clear. He'll try to sell the bill before it comes up for floor debate. And O'Rourke is a master of the inside game of state politics.



Harbor Towers as seen from Atlantic Ave.

That concerns tenant groups who have carried the issue so surprisingly well to date. "We're way, way ahead of where we were last year," said Massachusetts Tenant Organization spokesman John

McDonough. "But we're concerned that we're being led into a trap."

Columnist Warren Brookes  
June 1987

# 500 support plan for condo

By Fletcher Roberts  
Globe Staff

An estimated 500 tenants and housing advocates appeared before the Boston City Council last night to demonstrate their support for a proposed city ordinance that would prohibit the displacement of tenants as a result of condominium conversion.

Warning of what he called "dictatorship of the dollar," John Mills, a spokesman for the All-City Housing Organization, said, "Condominium means working people and poor people are losing their homes and this is the most cruel displacement."

As a first step in ending such displacement of Boston tenants, Mills urged the passage of the proposal, which is being sponsored by City Councilman Raymond Flynn.

Only one speaker, John Costello, a Boston Hill developer, voiced opposition to the proposal during the 3½-hour hearing, prompting Councilman Joseph M. Tierney, who presided, to characterize the hearing as a "big job." Tierney explained that no real estate representatives had been invited to speak.

The battle over condominiums in Boston has been building since they first made their appearance a decade ago. Since then, their number has risen to 5000 or 3.6 percent of the total rental housing stock. Roughly four-fifths of the condos are conversions.

Those who oppose condominiums say they place added pressure on the city's already tight housing market, with a vacancy rate of less than 2 percent. With typical units costing in the \$50,000 to \$100,000 range, the opponents contend that condominiums are unaffordable to all but the affluent.

Proponents of condominiums say the benefits to the city are twofold. Since 1970, according to a 1980 Boston Redevelopment Authority study, condominium development has expanded the city tax base by \$17.5 million, which translates to roughly \$10 on the current tax rate. Condominiums also are said to enhance neighborhood stability. According to the same study, the annual turnover rate for renters is five times that of condominium owners.

Proposals to curb condominium conversions are not new. The City Council in each of the last two years has defeated similar proposals that would ban evictions due to conversions.

Last year, however, Brookline voters enacted a total ban on conversions after condominiums had swelled to 11 percent of the housing stock.

Lynn adopted perhaps the most sweeping ordinance in the state, banning evictions when the vacancy rate falls below 5 percent.

Before such a ban could become a reality in Boston it would have to first receive a favorable vote by the council's committee on government operations, the sponsors of last night's hearing, and then the full council before moving on to

THE BOSTON GLOBE TUESDAY, FEBRUARY 24, 1981 19

## limits in Boston

Mayor Kevin H. White for his signature. A variety of groups, including Massachusetts Public Interest Research Group, the Symphony Tenants Organization Group and the Harbor Towers Assn., have endorsed Flynn's proposed ordinance.

## Boston's condo conversions: new trouble for the elderly

By Charles E. Claffey  
Globe Staff

Renée Scott of Jamaica Plain opens a small, worn jeweler's gift box and exhibits her Belgian medals and emblems awarded for service in World War II.

Scott was a member of the Belgian underground war until her arrest by the Gestapo in Brussels in early 1941. One of her crimes was forging passports for Belgian and French Jews trying to escape from Nazi-occupied territory.

She spent 3½ years in Germany's Ravensbrück concentration camp, where she contracted blood poisoning and typhoid fever and was sterilized by doctors conducting grotesque medical experiments on prisoners.

Scott is a survivor. Most of her comrades in the underground were executed or died in prison; she endured.

Now, Scott, who is nearing her 75th birthday, confronts a different kind of threat to her security, a threat which is once again testing her ability to survive.

She is among the hundreds of Boston elderly facing eviction from their apartments because of condominium conversion, their age exacerbating the unwelcome prospect of finding a new place to live.

Exact figures on the number of elderly vulnerable to displacement because of conversion are unavailable. However, the Boston Redevelopment Authority reports that 15 percent of the

residents in the downtown area live in buildings that have been converted, and 42 percent in other sections, such as Allston-Brighton and Jamaica Plain, where conversion is common.

Renée Scott lives on Social Security and a small disability check she receives from the Belgian government because of a heart ailment — a legacy of her imprisonment. "The doctor tells me my nerves are bad, that I've got to stop worrying," she says. "But how can I stop worrying? Look at the pills I'm taking," she says, indicating about a dozen prescription bottles on the kitchen table of her six-room apartment on Leveille road.

CONDOMINIUM, Page 26

## Condo conversion a worry for elderly

■ CONDOMINIUM  
Continued from Page 15

She adds that her concern is not so much for herself as for her daughter, Alice Lieber, 53, who lives across the street in an apartment building also scheduled for conversion by the same developer.

"My daughter has to get out by the end of next month. At least I have more than a year before I have to move."

Scott has more time than her daughter in which to relocate because of the provisions of a Boston ordinance signed into law one year ago by Mayor Kevin H. White.

The ordinance provides for:

- A one-year notice of eviction for most tenants whose apartments are being converted, the year beginning from the date the developer files his master deed with the Registry of Probate.

- Two years notice to those who are physically handicapped, or age 62 and over with an income ceiling of about \$11,000.

City Council President Patrick F. McDonough, who wrote the con-

version ordinance passed in December 1979, says that although he has not heard personally of any outcry for stronger legislation, "it's possible that there may be a substantial number of people who are being hurt."

The law has not had an appreciable effect on slowing down conversion, according to condominium industry sources who asked not to be named, because work has been slowed somewhat by skyrocketing interest rates and because many younger, middle class residents have elected to buy rather than move.

But for those in Renée Scott's vulnerable position, the Boston ordinance is seen only as a reprieve. Scott and other angry tenants argue they need more protection. Heister Hurlbutt, 65, of 250 Commonwealth av., sees "greedy people who want to take over the city."

Boston City Councilman Raymond L. Flynn agrees. In 1979, he introduced legislation providing for an absolute ban on tenant evictions resulting from conversion. His bill was defeated in the council, and substituted for it was the much weaker version finally ap-

proved by the council and Mayor Kevin H. White.

Flynn says he will try again this year to push for stronger legislation, "basically the same as what I tried to get through a year ago" — a ban on all evictions stemming from conversions. "If the passage of a good bill was important one year ago, it's doubly important now because of the economic pressures of inflation," Flynn says.

The Boston Redevelopment Authority has studied the problem of condominium conversion on the city's housing stock, and in a report issued last fall noted that most condo development has occurred in the Back Bay and Beacon Hill.

The study shows that 2 percent of Boston's housing, or 5,000 of the city's 243,000 housing units have been converted to condominiums since 1970 — about 2200 of these in the Back Bay and Beacon Hill.

Boston ranks fifth nationally in the percent of its total rental housing being converted to condominium ownership. It follows behind Washington, D.C., 7.73; Denver/Boulder, 6.75; Houston, 5.56, and Minneapolis/St. Paul, 3.42 percent.

The BRA study was prepared for the mayor's 11-member Commission on Housing, which is expected to make its own recommendations in about two months.

The Boston ordinance has not been a big factor in condominium activity in the city in the past year, according to Steven Cohen, director of the Condo-Condominium Owners Assn.

"The guys making the decisions on developing are more influenced by the market interest rates," Cohen said, "and right now the market is soft because of the (high interest) rates."

The newest member of the City Council, John Sears, who lives on Beacon Hill, reports that he has received many telephone calls and letters from tenants in the Back Bay and Beacon Hill complaining about impending evictions by condominium developers.

"These are people who are not poor," Sears says, "but who live on fixed incomes. Many of them are widows who are battling the effects of inflation on limited incomes."

Sears stresses that there is another factor that should be considered in the eviction process: length of time living in one neighborhood, one apartment.

In the group of tenants which includes those who are not poor, but who exist on a fixed income and who have lived in the same neighborhood for a long time, are 98-year-old Marie Phillips, and her daughter, Virginia, 70.

Phillips, a widow, and her daughter, a retired advertising manager for a Boston firm, have lived in their apartment at 250 Commonwealth av. for 29 years. Their rent, a figure fixed by rent control, is \$332 per month. The price to purchase their unit is about \$100,000.

They are not poor. Phillips has a modest income from stock dividends. Her daughter has a pension and Social Security benefits.

Phillips is blind by legal definition, and needs a cane to negotiate her way around the small apartment.

"It seems they ought to let people who are my age, and the age of my daughter, stay where they're living as long as they live — we're so old."

The Phillips have until next December to move. Originally, the developer had told them they would have to move next month, but due to an error in the papers the developer was required to file with the Boston Rent Control Board, they have a reprieve of nearly one year.

But the Phillipses, and other elderly residents of the building are staying as long they can, until every legal avenue of appeal is exhausted.

Gaetano Morello, a spokesman for the company developing the building, Phillips Associates, says that "we will be doing everything we can to find alternative housing for the tenants still remaining in the building. No one wants to throw anyone out on the street."



# Upscale Arson?

By Ari Jahnke

Like many people in the early seventies, Bob Ward thought he could make it big in the Boston real-estate market. In December 1971, he had worked for four years as a manager for Hamilton Realty. Ward's experience with the largest real-estate management firm in the state had given him a pretty good understanding of the real-estate game. What he did not have was the money.

Ward was able to find a nice four-story brick apartment building in Back Bay for a down payment of \$50,000—a good price, but apparently not good enough. Eight months after Ward bought the building at 194 Beacon Street, the bank called his mortgage. The new landlord was forced to negotiate a new mortgage.

In light of Ward's occupation, his bankers had every reason to expect a better performance than then ensued. From October 1971 to January 1974, Ward failed to make a single mortgage payment. Once again he was called to face his mortgage. For young Bob Ward, this was strike two.

Once again, the landlord persuaded his bankers that they would indeed get their money, but now it would be necessary to convert the building to condominiums. By June 1974, Ward sold the three top floors of 194 Beacon to private owners. Two units went for \$23,000 and the third brought in \$19,000. The next fall, another unit sold for \$18,000. Ward was making headway, climbing out from under an unwelcome debt. By October 1974, only one unit remained to be sold. Unfortunately for Ward, that unit was occupied by his sometime girlfriend, Debra Sparks, and Sparks did not want to leave.

And because she was not to leave, a final fire on December 9, a funny thing happened—that Sparks was on her way to court for a restraining order that would prevent her eviction. Someone unlocked her apartment, walked in and set two small fires, leaving it

## CONDO CONVERSION BY FIRE

BENEFICIARIES OF THE INFAMOUS SYMPHONY ROAD ARSONS WERE LUCKY TO SEE A TWO-TO-ONE RETURN ON THEIR MONEY. WITH CONDO ARSON AND RAPID CONVERSION, IT'S POSSIBLE TO WALK AWAY WITH FIVE AND TEN TIMES THE INITIAL INVESTMENT.

building of low-rent tenants in a matter of minutes. Even if the fire itself doesn't sufficiently damage their apartments, the subsequent water damage from fire fighting often does. In addition, the fire often deprives tenants of basic services, and few people will stay very long in an ugly and uninhabited apartment. Back Bay, for example, has seen a 400 percent increase in fires since the passage of the one-year lead time law.

Although the insurance claims from these upscale civilian fires are usually small (one must wait an investigation by insurance companies), the eventual profits often far exceed those of traditional insurance fires. Beneficiaries of the infamous Symphony Road arson, for example, were lucky to see a two-to-one return on their money. With condo arson, and rapid conversion, it's not unusual to walk away with five or even ten times the owner's initial investment.

Bob Ward's conviction in the fire cleared out way of condo arson to become in Boston could hardly have been more appropriate. After all, it could well have been Ward who first brought the practice to town.

Back in 1973, Patricia Mandel, an elderly tenant of a Hamilton Realty building on

three-decker Roxbury lanes in January 1976.

In the past four years, Boston properties owned by Hamilton Realty have suffered no fewer than nine fires, and five of them have been deemed "suspicious" by local fire authorities.

Since Bob Ward first brought condo arson to Boston, the criminal practice appears to have spread by leaps and bounds, from Back Bay to the South End, from Beacon Hill to the North End, and through any and all parts of town where real-estate prices have enjoyed a considerable appreciation.

Wherever it goes, the crime, burning out low-rent tenants to make way for the upscale, leaves the same legacy. To those who cannot afford to live in the privileged world of the new urban revival, it leaves an increasingly difficult search for affordable housing. And to the property owner, it leaves the astronomical profits of condominiums.

### Fires and Plumes

One example of the profits to be made in condo conversion is the building at 438-444 Hanover Street. In March 1978, a North End developer bought the building for

Commonwealth Avenue conversion told the *Real Paper* that neither fire caused anyone to leave the building, and that none of the insurance money was used to finance the condominium conversion.

### The Investigators

At one report, Lawrence Curran, vice president of investigative services for First Security Corporation, acknowledges the exact use of condo arson. "There are no controls available," says Curran, "but if you could establish a statistical base you would find the rise in fires is directly proportional to the rise in condominiums. There are only certain options open to people in real estate. Some are legal and some are illegal."

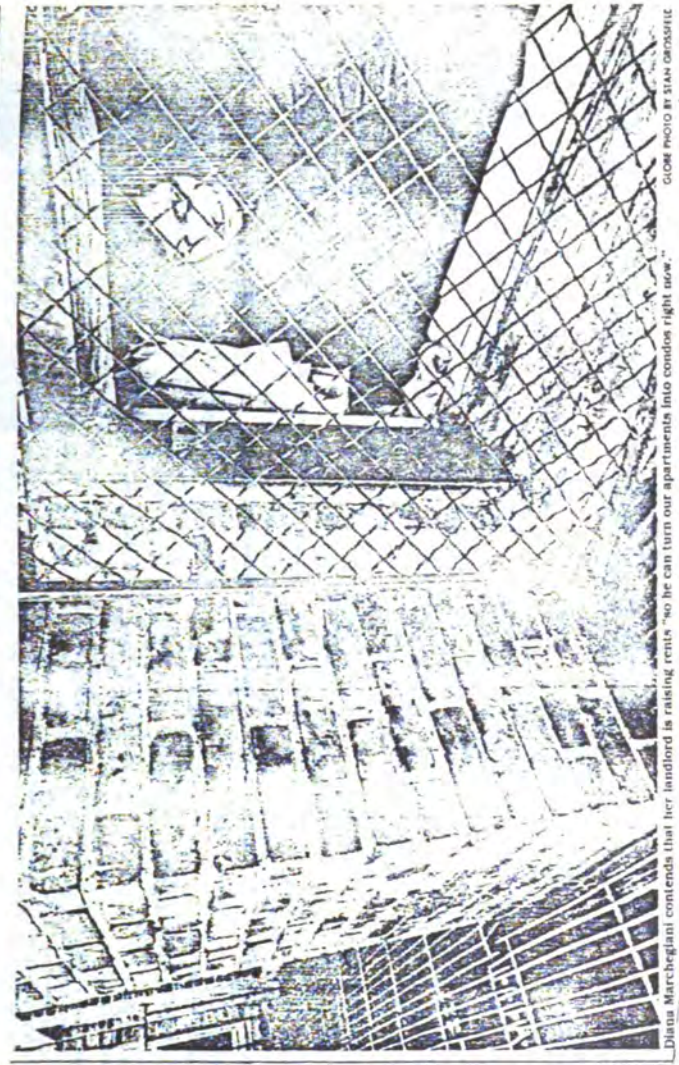
According to Bill Galvin, co-owner of the private arson investigating company, Intrepid, it is especially difficult to estimate the extent of gentrification fires because their relatively low insurance claims rarely engender police investigations. Of seventy-one recent fires in Boston buildings, subsequently converted to condominiums, more than half of the fires were estimated, by fire department officials, to have caused less than \$10,000 damage. According to Galvin, if the insurance companies don't investigate the fires, no one will.

But one agency that does keep a close watch on Boston fires and fire-prone landlords is the federally funded Urban Educational Systems (UES), a consulting company headed by arson specialist David Scordis. UES sends its researchers to study ownership patterns of fire-damaged buildings, which offer some interesting clues to Boston's most fire-prone condominiums.

Fires in the course of condo conversion may be started by accident, by vandals, or by tenants. They may also be started by owners with a financial motive to accelerate

# HUNTON

Living 19  
Arts & Films 20



Diana Marchegiani contends that her husband is raising rents "so he can turn our apartments into condos right now." GOOD PHOTO BY BARBARA

# \$801 rent increase challenged

By Eileen McNamara  
and Hank Klibanoff  
Globe Staff

In eight years Diana Marchegiani has lived at 250 Commonwealth av., her rent has increased a total of \$26.

Now, nine months before she and four other remaining tenants are scheduled to be evicted for condominium buyers, her landlord is seeking an increase that would boost her rent from \$276 to \$1077 per month, a 250 percent increase.

"There is no question that this is his way of forcing us out of the building so he can turn our apartments into condos right now," Marchegiani charged before a Boston Rent Control Board hearing was convened yesterday to con-

sider the landlord's request to raise all the tenants' rent \$801 per month.

"Absolutely not," the building's owner, Gaetano Morello of Medford, said. "I'm just trying to . . ."

"To cover costs," his lawyer, John F. Zamparelli injected.

"To cover costs," said Morello.

The tenants in Morello's six-story brickfront appeared at the hearing flanked by representatives of the Back Bay/Beacon Hill Tenants Union and City Councilman Raymond L. Flynn, who has drafted legislation at both the state and city level to tighten restrictions on condominium conversions.

Because of omissions on Morello's application for the rent increase, hearing officer Phil Lyons continued the

case soon after the session got under way. A date has not yet been scheduled for a further hearing.

"Sure we are making a federal case out of this," 85-year-old Hester E. Hurlbutt, a tenant of 250 Commonwealth ave. and a 60-year resident of the Back Bay, said after the proceedings. "These condominiums are the worst thing that ever happened. They are driving everyone but the very wealthy out of the city. Where do they expect us to go?"

Morello is asking \$90,000 to \$135,000 for the units currently occupied by tenants.

Morello said he realizes that the effect of his rent increase would be to force tenants to move. "But what choice do I have?" he asked. "I offered

to relocate them, but you know why they want to stay. Some of them are paying a little more than \$200 for units that are worth \$1,000 (a month). They'd stay forever if they could."

None of them wants to remain under present conditions, according to Carol Klein, who has lived at 250 Commonwealth ave. for 10 years and cataloged examples of what she characterized as "deteriorating maintenance" since Morello announced his intention to convert the building to condominiums a month after he bought the property in November 1979.

"There is no security. The front door is always left open by men working on

RENT BOARD, Page 23

## Tenants challenging \$801 increase in rent

■ RENT BOARD

Continued from Page 17

the condos. There are roaches everywhere, and mice. The elevator almost never works anymore. There are no smoke detectors in the building. The plaster is falling down in all our apartments. The heat and hot water go off when the men are in here working," she said.

"All of this is not to say he has not made improvements . . . There is new gold leaf in the ceiling in the lobby. What good does that do me?" she asked.

Morello said he properly maintains the building and that he has had no complaints from the tenants. "Ask them," he said. "They'll tell you I

take care of the place. I think they'll even tell you they like me, except for this."

From Morello's perspective, he's caught in a squeeze. Now that he has taken formal action to convert to condominiums, he is paying condominium tax rates on the seven units that have not been sold, including the five where the protesting tenants live. "His tax bills alone, applied to each of the tenants' units, exceeds what he receives from them in rent," Zamparelli told the hearing officer.

Attorney Cornelius H. Kane Jr., representing two of the tenants, charged that Morello's plan to convert to condominiums was "purely a speculative venture" and that any financial problems Morello might be having are hazards of the condominium conversion trade.



## Braintree developer, MHFA agree

By Fletcher Roberts  
Globe Staff

The developer of the Monatikot Village housing complex in Braintree tentatively agreed yesterday not to sell off its 324 units as condominiums.

Developer Francis X. Messina thereby agreed to comply with regulations of the Massachusetts Housing Finance Agency (MHFA), a tax exempt bond authority which finances such projects on the condition that they provide housing for low- and moderate-income persons. Monatikot Village has 201 rent-subsidized units.

The agreement not to convert the project to condominiums came after nearly two weeks of negotiations between attorneys for MHFA and Messina. The impending sale of the units as condominiums threatened to undermine MHFA's concept of mixed income housing and the public purpose for which it was created.

Since 1970, MHFA had made loans totalling \$1.4 billion used for the creation of 48,000 units, 95 percent of which are rent-subsidized.

In 1972, MHFA loaned Messina \$8.7 million to develop the Braintree complex. By 1979, more than \$700,000 in the arrears, Messina defaulted on the loan and MHFA moved to foreclosure.

At a Feb. 13 foreclosure sale, Messina bought back the property for \$10.5 million and announced that he would convert it to condominiums. He had until next Monday to finalize the deal.

Under yesterday's agreement, Messina further agrees to turn over management responsibility for the complex to Anthony P. DeFalco,

whom Messina describes as a "longtime friend and associate."

He also agreed to pay off the arrearage at an interest rate of 11 1/2 percent per year and put up a five-acre parcel of land contiguous to the complex as security.

MHFA and Messina still have minor details of the agreement to iron out before it is finalized March 23. Messina's attorney, Edward Lubitz of Boston, expressed optimism that the agreement could be finalized before then.

## IS ON FOR THE SUMMER

By Chris Black  
Globe Staff

Proponents of a Massachusetts bottle bill yesterday launched the ninth annual campaign for passage of the measure in the Legislature, but this time they offered a contingency plan to take the issue to the voters as a binding ballot question in 1982 if the legislative route fails.

The measure would require refundable nickel and dime deposits on soda and beer. Yesterday's hearing on the bill was the opening salvo in the fight.

State Sen. John Oliver (D-Amherst), one of the more than 90 sponsors, predicted energy savings through recycled materials.

BOTTLE, Page 22

REOPENING SCHOOLS IN School Department  
pending next year.

"The closing of so many schools is painful to all," Acting Supt. Paul A. Kennedy said after the committee's 5-0 vote, "but it should serve notice that the Boston school-system is putting its financial house in order."

The list of closings must now be filed with US District Judge W. Arthur Garrity Jr., presiding in the 9 year-old Boston school desegregation case. Garrity has been pushing for closings for years, contending thousands of empty seats could permit resegregation of the school system, and is expected to approve the committee's action.

CLOSINGS, Page 19



Crowd fills Charlestown High School auditorium for last night's Boston School Committee meeting. GLOBE PHOTO BY JOHN BLANDING

## Condo dilemma reaches Duxbury

By David Arnold  
Globe Staff

DUXBURY — She sat amongst cardboard moving cartons arranged as neatly as bone china.

"It is all quite awkward," she said softly above the tick-tock of antique clocks in her apartment.

"It is all quite awkward," he said in his home across town, sitting in the warmth of a wood stove. They are distant relatives.

He bought her Snug Harbor apartment building for condominium conversion. But the transaction is stalled, and he says he now must raise her rent far beyond the means of the 82-

year-old woman. She will move by the end of the month.

The big city problem of condominium conversion has come to a sleepy, traditional Duxbury neighborhood where people have lived in quiet elegance for decades.

"Raising rents is not fun," said James T. Pye, a Duxbury lawyer and one of three Duxbury professionals who bought the property, "especially when the youngest tenant is 73 and another is a distant relative. But I have little choice. I am fighting just to break even."

DUXBURY, Page 18



New owners would convert six apartments in stately house on Washington street in Duxbury to condominiums. GLOBE PHOTO BY TOM LANDERS

Mr. ROSENTHAL. Mr. Daub.

Mr. DAUB. First, Mr. Kaplan, I apologize that I did not get here quite on time to hear your oral testimony. I did read your prepared testimony, for which we thank you.

Let me ask this same question and have each of you answer it. Mr. Kaplan, you are a paid executive director; is that correct?

Mr. KAPLAN. No, it is not. I am a voluntary member of the committee. My living is made as an attorney.

Mr. DAUB. You are an attorney. Do you live in one of these buildings where the circumstances of your clients have—

Mr. KAPLAN. I am still a tenant in the building that I live in. However, I know that I am under the constant threat of having a building that is subject to conversion because I am seeing all around me the constant cropping up of conversions.

Mr. DAUB. How long have you practiced law?

Mr. KAPLAN. About 2 years now.

Mr. DAUB. What did you do before that? Did you attend law school just before that?

Mr. KAPLAN. Yes.

Mr. DAUB. Is your town your hometown, and your State your home State?

Mr. KAPLAN. That is correct.

Mr. DAUB. Are you being paid to testify here today? Are your expenses being paid by this committee?

Mr. KAPLAN. That is correct.

Mr. DAUB. Mr. Atlas, the same thing, are you a paid executive director of the New Jersey Tenants Association or represent them in some way? Would you define that for the record?

Mr. ATLAS. Yes. I am the second vice president and I act as their counsel—voluntary counsel.

Mr. DAUB. Are you an attorney?

Mr. ATLAS. Yes.

Mr. DAUB. How long have you practiced law?

Mr. ATLAS. Ten years.

Mr. DAUB. About 10 years? Do you live in one of the buildings or are you a tenant or renter in one of these areas where—

Mr. ATLAS. Fortunately for me, I am no longer a tenant. I am a homeowner.

Mr. DAUB. You are a homeowner. Are you in this same community base where you are right here?

Mr. ATLAS. I live in Montclair but I represent the New Jersey Tenants Organization.

Mr. DAUB. 75,000 dues-paying members of your group; is that correct?

Mr. ATLAS. That is right.

Mr. DAUB. I have the same question for you, Mr. McDonough.

Mr. McDONOUGH. We are a new organization, as I mentioned. I am the unpaid acting director at this point. I am not an attorney. I have the good fortune to live in an owner-occupied building of which I am a tenant in the Jamaica Plains neighborhood of Boston. Is that all the questions?

Mr. DAUB. What do you do for a living, then, if you are not paid by this group and you are acting director?

Mr. McDONOUGH. I am acting right now as unpaid acting director, and I am not being paid. I previously worked as an organizer for the Amalgamated Clothing and Textile Workers Union.

Mr. DAUB. How long did you have that employment?

Mr. McDONOUGH. I was working for them for about 4 years.

Mr. DAUB. Was that after college until now or after high school or—

Mr. McDONOUGH. That was a few years after college and up until last January.

Mr. DAUB. I see. Thank you very much.

Now let me ask each one of you to consider this question. We have a responsibility to consider what might be done from a Federal point of view to deal with condomania, or whatever you want to call it. You have to balance that against the right of the person who owned the building and now has the opportunity to sell so that the property might be converted.

Do you propose any Federal solution to the first sale before the tenants get their notice? In other words, are you saying you should leave out of the process the person who is offered the nice amount of money for the old tenement section property? Do you follow me? Would you leave alone the person who first sells the building that ends up being converted?

Mr. KAPLAN. I think that by ignoring that you are ignoring part of the problem. It is the incentives that exist right now to sell that building to the developer which, I think, have to be discouraged. I am not a tax lawyer by profession. I only have a commonsense, layman approach to taxes, but from that approach it seems that the incentives right now, because of the spiraling costs that are associated for rental properties, is for an owner to take the quick dollar and sell out to a developer.

There should be incentives provided for that owner, particularly a long-term owner, to maintain that building. As you turn over buildings the debt ceiling on the mortgage service charges increases and inevitably that is going to be passed along to the renter. It seems like what you should be doing is providing incentives for long-term owners of rental stock buildings to maintain their ownership of that building. They should be given incentives to improve and maintain that rental housing rather than the incentive to sell the building to the developer who is going to make the quick profit.

Mr. DAUB. I appreciate that. I think that is a positive comment. Are there any other aspects that deal with the original owner of the property besides the tax angle?

I am going to summarize your testimony to mean you can't afford to keep it up, and it doesn't pay you to put any increased rent back into the building anyway because it eats you alive; right?

Mr. KAPLAN. Right.

Mr. DAUB. Mr. Atlas.

Mr. ATLAS. I agree with those comments. In addition, I think it is important that we try to restructure the Federal mortgage insurance and subsidy programs to make financing available for purchase by tenant groups, for example, or community-based housing development corporations. They don't have access to low-cost fi-



nancing or any financing at all. I think that would be a step in the right direction.

Mr. DAUB. Would that mean then that you would ask the Government to make a system of direct or guaranteed loans available to a group like the tenant association? What would the collateral for the mortgage be, the building itself?

Mr. ATLAS. That's right.

Mr. DAUB. If there is a default by the tenants' group as people come and go and move in their transient nature, would the Government own the building?

Mr. ATLAS. There is a risk that the Government might own the building, but the risk in allowing conversions to continue, it seems to me in human terms, far outweighs the risk to the Government or to the former landlord.

Mr. DAUB. Would we be better off doing that or just invoking rent control?

Mr. ATLAS. It seems to me we have to understand rent control as a necessary but short-gap solution to the housing crisis.

In New Jersey we have 120 communities with rent stabilization, we call it, not rent control, to distinguish it from New York's old rent control system. It allows costs to be passed along to the landlords as their costs increase. That so far has been a very effective remedy in dealing with skyrocketing rents and other forms of landlord abuse. You should know that tenants are not opposed to the idea of condominiums or cooperatives. What they are opposed to is paying exorbitant prices for that form of ownership.

Mr. DAUB. How long in your testimony, on page 15, would you urge the Government to invoke a moratorium? Three months, 6 months, 1 year, 2 years, 3 years?

Mr. ATLAS. Three years has been suggested, I believe, by Congressman Rosenthal. What we have to do is get hold of the problem. The moratorium should be directly related to how quickly we can make an assessment of the problem and come up with some solutions both in terms of limiting the skyrocketing price of condominiums and finding ways to build low- and moderate-income housing.

Mr. DAUB. In your experience, do you think the actual cost of money today in the current economic climate might make condo conversion short-lived in and of itself?

Mr. ATLAS. It doesn't seem to be. That is no answer because we need affordable housing. Condominium conversions are going on even with the skyrocketing interest rates. That, of course, just exacerbates the problem. We still have to develop alternative financing mechanisms to deal with the high cost of financing. That is the critical thing.

Mr. DAUB. Do you have any other ideas that deal with the original owner of the property? That is where I am headed right now. Since you folks represent these people, I don't want to take any more time now, but I am looking for something you didn't talk about, and that is the original owner of the building. We have your testimony on the side of the converter. I want to explore with you the situation of the person who owned the property to begin with.

Mr. McDonough, do you have any comments?

Mr. McDONOUGH. No.

Mr. ROSENTHAL. The time of the gentleman has expired. Mr. Hiler.

Mr. HILER. In how many condo conversions is there arson?

Mr. McDONOUGH. I am sorry, sir?

Mr. HILER. In how many condo conversions is there arson?

Mr. McDONOUGH. We don't have the exact figures. What we have is figures that show that since the enactment of the notice provision by the Boston City Council there have been, particularly in the areas where there have been high numbers of condo conversions, dramatic increases in the number of significant fires, and in the number of fires of suspicious origin.

Mr. HILER. How many are arsons?

Mr. McDONOUGH. In how many condo conversions is there arson? I don't have that exact figure, sir.

Mr. HILER. Exact figure? You are saying that there is a figure, and I am wondering could you get the figure for the number of condo conversions which are arsons for the committee so we would have that to reflect on? You make a very rash statement here, a very rash implication that in the city of Boston today all the condo conversions are arsons.

Mr. McDONOUGH. I did not mean to imply that, sir. What I—

Mr. HILER. You do when you say that. You say right here that there has been a 400-percent increase in significant fires. That would seem to imply that they are all a bunch of arsons; wouldn't it?

Mr. McDONOUGH. There is a series of articles this week, a five-part series, in the Boston Globe, particularly on this issue. I have included in my testimony the first two installments of that article. There is another one today which basically indicates that since this provision has been enacted—since the 1-year notice—there has been a significant increase in fires and in arson. We can't say specifically that it is being done by the owners, and I am not intending to imply that but, at the same time, we feel it is important to bring this to light and to let people know that this is actually what is happening.

Mr. HILER. Well, when you get those condo converters who are arsonists, the committee would appreciate that information.

Mr. ATLAS, what is your solution?

Mr. ATLAS. I don't have a solution to the problem. I have suggestions and a direction in where to look for solutions.

To deal with the housing problem, we have to deal with two soaring costs. One is in the land and one is in interest rates. Those are the two most rapidly increasing costs of housing. Additionally, we have to stop speculation.

Mr. HILER. How do we stop speculation?

Mr. ATLAS. Well, we can dry up credit for speculation.

Mr. HILER. How would you accomplish that?

Mr. ATLAS. We can impose controls, prohibit loans for conversion or for purchase to speculate.

Mr. HILER. Would you do the same for wheat?

Mr. ATLAS. As I tried to say before, there is a difference between the crisis affecting people who are affected by the housing problem and just about all of the commodities.

Mr. HILER. Wheat?

Mr. ATLAS. Well, food, as I said before, is different from housing. There is an element of flexibility in the price of food. I am not an expert in the area of food. Certainly we need to get controls over the soaring price of food.

I do have some ideas about housing, and I do know that you can't cut back on your housing expense. You can't wake up one morning and say, you know what? I guess I am not going to pay my monthly housing costs or my rent or maybe I will just pay 50 percent of it because I lost my job or I had an extraordinary medical expense or there is a funeral in the family or some other hardship. You can't do that because if you do that you are out on the street. You can cut back in food. You can cut back in other necessities. There is an element of flexibility. That is why I make those distinctions.

Mr. HILER. I understand that when you say that we have to cut back on speculation. Let's say that we are somehow able to enact legislation and cut back on speculation in housing. I am not sure how you would do that, but let's say that we could. The argument could turn on whether you are going to do it in grain futures, are you going to do it in gold, in lumber, in pork bellies, are you going to do it in wheat, are you going to do it in brass, or bronze? Where do you stop in your prohibitions? Are you going to do it in the dollar?

Mr. ATLAS. Like I said, my answer would be similar, and that is that we have a housing crisis, probably the worst housing crisis this Nation has faced since the Depression.

Mr. HILER. The housing crisis is due, as you said, to increase in cost of land and interest.

Mr. ATLAS. Also speculation which is similar to increase in cost of land. The buying and selling of housing doesn't produce more housing.

Mr. HILER. Is the fact that home starts are at 1.2 or 1.3 million below probably where they should be at 2.5, maybe, given the demographics today, is that due to speculation?

Mr. ATLAS. I think that is due to soaring interest rates primarily.

Mr. HILER. The speculation in single family housing is due to interest rates?

Mr. ATLAS. Primarily. I assume that it is also partly due to the fact that it is harder to get any capital. The availability of mortgage money is also a serious problem. I think we have to understand that the problem is that we don't have sufficient control over both the availability and the cost of financing. I think that is a critical, basic problem in the housing area. Unless we address that, I would suggest that we won't come up with any solutions.

Mr. HILER. We need controls on interest rates and financing, and then for housing, as well?

Mr. ATLAS. I would say that is certainly an area that I would look into to see whether or not that is a good idea and whether it is possible.

Mr. HILER. Controls on interest rates?

Mr. ATLAS. Yes.

Mr. ROSENTHAL. The time of the gentleman has expired. Thank you all very, very much. We are very grateful for your testimony.

Without objection, we shall include in the record a statement furnished to the committee from the American Federation of Labor and Congress of Industrial Organizations.

[The prepared statement of Mr. Henry B. Schechter, AFL-CIO, follows:]

Statement of Henry B. Schechter, Director  
Office of Housing and Monetary Policy, AFL-CIO  
submitted to the  
House Committee on Government Operations  
Subcommittee on Commerce, Consumer and Monetary Affairs  
for the record of hearings on  
Conversion of Rental Properties to  
Condominiums and Cooperatives

March 31, 1981

I welcome this opportunity to submit the views of the AFL-CIO on the growth of rental property conversion and the accompanying economic and social problems, for inclusion in the record of hearings on conversions being held March 31, 1981.

The AFL-CIO has a long-standing policy of supporting the availability of adequate housing for workers and other moderate-income people. When the Housing and Community Development Act of 1980 was under consideration, we specifically called for the approval of the Condominium and Cooperative Conversion Protection and Abuse Relief Act, because it "would provide needed consumer protection of tenants against inadequate notice of conversion and disclosure of purchase terms, as conversions multiply in many tight local rental housing markets."

Since then, conversions have continued to increase and the rental housing supply in many markets has become tighter. Those conditions and the hardships they are causing create a need for additional remedies.

A summary precedes the full statement.

Summary

In the fourth quarter of 1980 the national average rental housing vacancy rate reported by the Census Bureau was 4.8 percent, the lowest on record. The national rate was only 4.5 percent if units lacking plumbing facilities are omitted. In the Northeast the average rental vacancy rate was 3.6 percent. In many

local markets the comparable vacancy rates were below the averages. These vacancy figures reflect a general housing shortage in many local markets because housing production has not kept pace with the needs of the post-World War II baby boom.

With less rental housing availability the demand for owner-occupied housing has become greater in the overall short-supply housing market. The median price of existing homes increased at annual rates of 12 to 14 percent a year; new home prices by comparable margins. Home price increases thus became one of the leading causes of inflation in the economy and also made home-ownership attractive as a hedge against inflation. In addition, as prices, mortgage amounts, and tax-deductible interest payments and property taxes increased, home-ownership became even more attractive. It also made more attractive cooperative or condominium ownership of housing units in multifamily structures through which all of the tax benefits and inflation hedges of home ownership could be achieved.

By late 1979 and in the first half of 1980, according to Census Bureau reports, between 20 and 30 percent of new apartment units being completed, or about 100,000 per year were condominiums or cooperatives. However, the rate of condominium creation through conversion of existing rental apartment buildings was overtaking new construction of such units. That was indicated by data in a comprehensive HUD study of "Conversion of Rental Housing to Condominiums and Cooperatives" published in June 1980.

According to the HUD study in the first three quarters of 1979, about 115,000 existing rental units had been converted to condominiums or cooperatives, indicating an annual rate of about 150,000. Using local 1977-79 conversions data, and after adjusting for a 1980 slowdown due to high interest rates, a trend line projection of conversions shows a total of about 1,140,000 for the U.S. during the 1980-85 period, with an annual total of 294,000 being reached in 1985.

More than three-fourths of all rental units converted during the 1970-79 period, over 265,000 units took place in the 37 largest metropolitan areas, about half in the central cities and half in the suburbs. In those 37 SMSAs 2.22 percent of their rental units were converted to condominiums during the 1970s, compared with 1.31 percent for the country as a whole. In several of the largest SMSAs, higher proportions of the existing rental inventory, ranging from 2.37 to 7.73 percent had been converted to condominiums.

The highest incidence of conversions has occurred in the Metropolitan Washington area. A study by the local Council of Governments showed that 15,102 condominiums were added in that metropolitan area in the year ending July 1, 1980. Seventy-nine percent or 11,922 were rental units that had been converted. Only 2,862 new rental units were constructed in the metro area in that year. Based on recent experience, as a conservative estimate, about 5,000 rental units were removed from the housing inventory. The total net loss of rental units from the local rental market, therefore, would be about 14,000 in 1979-80, equal to about 2.5 percent of the units in a tight rental housing market.

In the surveyed universe of converted buildings covered by the comprehensive HUD survey, as of January 1980, 58 percent of the tenants who had occupied units after conversion began had moved out. Looking, also, at findings of earlier studies of conversion experience in individual localities, it appears that on the average about 60 percent of the pre-conversion tenants move, rather than buy or remain as tenants.

Close to one half of the interviewed former renters who did not purchase said they could not afford to do so. The data indicate why they could not afford to purchase. The non-purchasing movers had higher proportions of low-income, higher proportions of elderly (most of whom were in the low-income groups), and a higher proportion of households with three or more person, that



generally need three or more bedrooms. Using a rule of thumb that the purchase price should not exceed  $2\frac{1}{2}$  times income, it was found that 42 percent of the former tenants could not afford to purchase a unit.

The HUD survey also obtained reactions from tenants who moved rather than bought, about how they felt about their new residences. As might be expected, among the former residents with incomes of under \$12,500, a higher proportion than among any other group, 31 percent found their new housing worse than the old. The same reaction was voiced by 22 percent of the move-out tenants who were non-white and by 15 percent of those 60 or more years old. Probably many of those who felt that they had worse housing were among the 30 percent of former tenants who became renters elsewhere and paid a lower rent than their previous rent, while an almost equal percentage of the former tenants who became renters elsewhere paid rents 26 percent and even 50 percent more than they had paid previously.

For the owner of a rental housing property in a tight market, an opportunity to sell to a converter is often decidedly advantageous, especially if the property is at an age when major capital repairs or equipment replacements are needed, large cash outlays may be needed. In new buildings, in better locations it might be possible to obtain some rent increases, even without major additional cash outlays, but increased income would be taxed at regular income rates. On the other hand, a sale to a converter that produces a substantial capital gain would be taxed at a much lower tax rate.

For the converters, as pointed out in the HUD study, while converters attempt to earn between 10 and 30 percent of gross profit, by leveraging with loans to cover most of the acquisition and rehabilitation costs, a small equity investment can provide a yield that can be several times the amount of the invested equity.

By bidding for scarce mortgage money, the speculator-converter helps to keep mortgage rates high, making it more difficult for prospective homebuyers to finance home purchases. The converter also bids up the value of existing rental properties. Available long-term funds, thus, are used to create capital gains for property owners and converters instead of to produce additional housing.

Measures must be adopted to combat the inequity and social stress, as well as inflationary impact of unrestrained conversion of rental properties. Several steps should be considered.

There is a need to enlarge the available rental housing supply for low- and moderate-income people. That would require an expansion of authority for Federally-assisted, newly constructed rental housing to meet those needs, rather than the drastic reductions being proposed by the Reagan Administration.

As a means of combatting inflation, the President may authorize the Federal Reserve to exercise selective credit regulation. That authority under the Credit Control Act of 1969, should be utilized to preclude the financing of condominium conversions until such time as the housing supply has been expanded sufficiently, so that available financing and housing stock utilized in conversions will not add to inflation. The exercise of credit regulation should also preclude the use of credit for acquisition of existing housing units for other purposes than occupancy as a primary residence by the owner.

In light of the tight rental markets and an accelerating trend of increasing conversions, the Congress should reconsider Section 606 of PL 96-399, to determine if it needs to specify more definite guidelines of what may be adequate notice or other action in markets where adequate rental units may not be available, and whether to provide for Federal intervention if appropriate state or local measures are not adopted.

\* \* \* \* \*

Tight Rental Housing Markets

In the fourth quarter of 1980 the national average rental housing vacancy rate reported by the Census Bureau was 4.8 percent, the lowest on record. The national was only 4.5 percent if units lacking plumbing facilities are omitted. In the Northeast the average rental vacancy rate was 3.6 percent.

In many local markets the comparable vacancy rates were below the averages cited, as evidenced by the following December 1980 data published by Advance Mortgage Corporation:

<u>Metropolitan Area</u>	<u>Rental Apartment Vacancy Rate (percent)</u>	<u>Total<sup>a/</sup> Vacancy Rate (percent)</u>
Atlanta	4.0	—
Chicago	—	3.6
Suburban Chicago	—	2.8
Detroit	—	3.7
Minneapolis-St. Paul	3.9	1.7
Denver	—	2.0
Los Angeles-Orange County	2.1	—
San Diego	—	3.5
Seattle	3.5 <sup>b/</sup>	—

a/ total includes rental plus sales type units

b/ data as of October 1980

Those vacancy figures reflect a general housing shortage in many local markets because housing production has not kept pace with the needs of the post-World War II baby boom. The highest part of that population wave originated in the years 1954 through 1964 when more than four million children per year were born. Twenty years later, along with other factors, such as increased longevity, that population tidal wave created the greatest housing requirements this country has ever experienced.

During the six years between March 1974 and March 1980 the number of households in the country increased by 9.2 million. To replace housing units lost from the supply due to demolition and catastrophe during those six years, to accommodate migration and mobility, and to offset units absorbed for second homes, an estimated four million units had to be added, besides the 9.2 million for the growth of households. During the six calendar years 1975 through 1980 there were 9.8 million new housing units started. While a small part of the approximately  $4\frac{1}{2}$  million unit shortfall was made up by production of mobile homes and conversion of large units and non-housing structures to provide additional units, the increase in supply fell a few million units behind the underlying potential demand.

Such market conditions were reflected in a decrease from 6.0 to 4.8 percent in the national average rental vacancy rate between the end of 1974 and the end of 1980. With less rental housing availability the demand for owner-occupied housing became greater in the overall short-supply housing market. The median price of existing homes increased at annual rates of 12 to 14 percent a year; new home prices by comparable margins.

Home price increases thus became one of the leading causes of inflation in the economy and also made homeownership attractive as a hedge against inflation. In addition, as prices, mortgage amounts, and tax-deductible interest payments and property taxes increased, home-ownership became even more attractive.

#### Increasing Coop and Condo Conversions

All of the tax benefits and inflation hedges of home ownership could also be achieved through cooperative or condominium ownership of housing units in multi-family structures. The 1970 Census listed 361,000 owner-occupied units as being in cooperatives or condominiums. The 1978 Annual Housing Survey (by the Census Bureau) shows a total of 1,213,000 owner-occupied condominium and cooperative units. That is an increase of about 236 percent compared with about a 20 percent 1970-78 increase in total occupied units.

Less than 30 percent of the 1978 total of "coops" plus "condos" was in cooperatives and many of the latter had been built as cooperatives prior to the seventies.

By late 1979 and in the first half of 1980, according to Census Bureau reports, between 20 and 30 percent of new apartment units being completed, or about 100,000 per year were condominiums or cooperatives. Many of these new condominiums were being built in warm-weather beach areas, as in Florida, and some in northern ski and lake areas, such as in Vermont, New Hampshire and Colorado. Although statistics are not available, journalistic reports on real estate activity in those areas indicates that a significant portion of new condos in such areas serve as seasonal, second homes, which may also be rented out for short periods.

The most comprehensive study of "The Conversion of Rental Housing to Condominiums and Cooperatives" indicates that by the end of the seventies the creation of coop and condo units through conversions of existing rental units was becoming greater than new construction of such units. That (HUD) study, published in June 1980, provided national data on conversions, with special emphasis on such activity in the largest metropolitan areas where the conversions were most significant in relative volume and impacts upon residents. According to the HUD study in the first three quarters of 1979, about 115,000 existing rental units had been converted to condominiums or cooperatives, indicating an annual rate of about 150,000. Using local 1977-79 conversions data, and after adjusting for a 1980 slowdown due to high interest rates, a trend line projection of conversions shows a total of about 1,140,000 for the U.S. during the 1980-85 period, with an annual total of 294,000 being reached in 1985.

A study by the Metropolitan Washington Council of Governments showed that 15,102 condominiums were added in that metropolitan area in the year ending July 1, 1980. Seventy-nine percent or 11,922 were rental units that had been converted. Only 2,862 new rental units were constructed in the metro area in that year. In other words, the net effect of conversions versus new construction of rental units was a decrease of more than 9,000 units in the rental market. A significant, though unknown, number of rental units was also removed through demolition, fire, etc. The most recent Annual Housing Survey of the Washington Metro area, from 1977, showed that 10,200 units which had been in renter occupancy had been removed from the housing inventory in that year. Assuming a tighter housing market in 1979-80 than in 1977 (when a 3.8 percent rental vacancy rate was found in the Annual Housing Survey) perhaps only half as many rental units, or about 5,000 were removed from the inventory. The total net loss of rental units from the local rental market, therefore, was about 14,000 in 1979-80, equal to about 2.5 percent of the units in a tight rental housing market.

The HUD study published in June 1980 showed an accelerating trend in conversion of existing rental properties during the 1970s. Of 360,000 existing units converted during the 1970-79 period, 260,000 or 71 percent were converted in the 1977-79 period. About 95 percent of the unit conversions were from rental to condominium. Only about 5 percent were converted to cooperatives.

More than three-fourths of all the rental units converted during the 1970-79 period, over 265,000 units took place in the 37 largest metropolitan areas, about half in the central cities and half in the suburbs. In those 37 SMSAs 2.22 percent of their rental units were converted to condominiums during the 1970s, compared with 1.31 percent for the country as a whole. Several of the largest SMSAs, however, had a greater incidence of conversions than the average for the top 37. These were:

Washington, D.C.	7.73 percent
Denver-Boulder	6.96 percent
Chicago	6.75 percent
Houston	5.38 percent
Minneapolis-St. Paul	3.42 percent
Boston	2.37 percent

#### People Affected in Conversions

Based on information that included survey responses from people living in converted buildings and those who had moved out of such buildings, the HUD study provides some hard data on characteristics of people who buy into the converted condominiums or coops, and those who moved from the buildings. (The survey was conducted in December 1979-January 1980 in 12 SMSAs with relatively high conversion activity during the 1977-79 period.)

In the surveyed universe of converted buildings, as of January 1980, 58 percent of the tenants who had occupied units after conversion began had moved out, while 42 percent continued to be residents, either as owners (22 percent) or renters (20 percent).

A comparison of the following characteristics of present owners of converted units and pre-conversion renters who moved out shows some contrasts.

<u>Characteristic</u>	<u>Present Owners</u>	<u>Pre-conversion Renters who Moved out</u>
Percentage with income over \$21,500	63 percent	54 percent
Percentage with income below \$12,500	12 percent	20 percent
Percentage with over 65 years old	9 percent	20 percent
Percentage over 65/incomes under \$12,500	not available	12 percent
Percentage that are 1-person households	57 percent	27 percent
Percentage with 3 or more persons	8 percent	23 percent

Close to one half of the former renters who did not purchase because, they said, they could not afford to do so. The data indicate why they could not afford to purchase. The non-purchasing movers had higher proportions of low-income, higher proportions of elderly (most of whom were in the low-income



groups), and a higher proportion of households with three or more persons that generally need two or three bedrooms.

In addition to economic factors which cause about half of tenant residents to seek other housing, there are other adverse conditions related to the conversion process that pre-conversion tenants claim affect them. A minority of tenant buyers (21 percent) and continuing resident tenants (28 percent) feel that they were placed under pressure to buy or relocate, but 74 percent of the former residents feel that way.

In an earlier HUD study on conversions to coops and condos, in 1975, it was estimated that between 75 and 85 percent of tenants, in buildings being converted, moved. In other studies in 1978-79 in individual market areas (Evanston, Illinois, Washington, D.C., Newton, Massachusetts and Seattle, Washington) the estimates of percent of tenants moving ranged between 63 percent and 80 to 88 percent. Various refinements of the statistics yield results showing that on the average about 60 percent of the tenants do not buy and move away.

#### Affordability Problem of Tenants

Questions of affordability of residents to buy their occupied unit in a rental building being converted will vary greatly with the incomes of tenants, prices of units and mortgage interest rates. In the HUD 1979 survey a statistical measure used was whether income was equal to  $2\frac{1}{2}$  times the purchase price, which presumably would require about 25 percent of income for housing expenses. This rule becomes less applicable as mortgage interest rates rise above 10 percent. Nevertheless, using the " $2\frac{1}{2}$  times" rule, it was found that 42 percent of all former residents could not afford to buy. When asked, a greater proportion indicated that they could not afford to buy.

Certainly, at the current mortgage interest rates, generally ranging around 15 percent, very few of the residents in the converted buildings or outside prospective buyers can afford to buy. A feature story in the Washington Post of March 20, 1981 stated that the number of unsold condominiums in the area market had risen 88 percent over a year ago to a total of 5,100. In a number of South Florida local markets, converters have stopped trying to sell units at this time and are continuing to rent them to residents.

However, as mortgage interests come down later this year or in 1982, there will be a return to condo sales and move-outs by those who cannot afford to buy. Credence is given to estimates, that a significant proportion of pre-conversion tenants cannot afford to buy, by the HUD study finding that for those tenants who bought (frequently at discounts from the sales price to non-tenants), total housing costs after conversion were 36 percent higher than the rents they had paid.

#### How the Displaced Fare

The HUD survey also obtained reactions from tenants who moved rather than bought, about how they felt about their new residences. As might be expected, among the former residents with incomes of under \$12,500, a higher proportion than among any other group, 31 percent found their new housing worse than the old. The same reaction was voiced by 22 percent of the move-out tenants who were non-white and by 15 percent of those 60 or more years old. Probably many of those who felt that they had worse housing were among the 30 percent of former tenants who became renters elsewhere and paid a lower rent than their previous rent, while 28 percent of the former tenants who became renters elsewhere paid rents equal to 26 percent to above 50 percent more than they had paid previously. The difficulties encountered by elderly and minorities occur in both small and large localities, including cities in South Florida, Duxburg, Massachusetts and Santa Monica, Culver City and Tarzana in California, which Chairman Rosenthal has documented in the Congressional Record.

Although tenants are often given discounts from condo sales prices available to the general public, apparently many of them still could not afford to buy. In tight housing markets, profitable condominium conversion is a good possibility. Data in the HUD study shows a concentration of conversion in the sub-market areas with low vacancy rates. On the other hand, many of those tenants who cannot afford to buy units they occupy often must seek poorer housing or pay significantly higher rent, or encounter both disadvantages.

#### Sellers and Converters of Property

For the owner of a rental housing property in such a market, an opportunity to sell to a converter is often decidedly advantageous, especially if the property is at an age when major capital repairs or equipment replacements are needed. With inflated costs for such repairs or replacements, greater outlays of cash than had been anticipated or accumulated in reserves may be necessary. Borrowed funds will require high interest payments and rent increases that may not be obtainable from most of the tenants. In new buildings, in better locations it might be possible to obtain some rent increases, even without major additional cash outlays, but increased income would be taxed at regular income rates. On the other hand, a sale to a converter that produces a substantial capital gain would be taxed at a much lower income tax rate.

For a rental housing developer, a shift to the condo conversion business offers certain attractions. There is no need to obtain a site, obtain zoning approval, site plan approval, building code approval, environmental impact approval, etc. If the property can be bought at a price which satisfies the owner-seller with a gain and still leaves room for rehabilitation and sale of units at a satisfactory profitable margin, there is no need for a long-term investment, as with the construction and management of a rental property. There may be a delaying drawn-out fight put up by present tenants, but the converter can have confidence that in the current legal framework he will come out the winner. The greatest risk that the speculator-converter-investor is likely to

encounter is a rise in interest rates which will make the conversion economically infeasible.

The economic attractiveness of the condo conversion business is perhaps best summed up in the two following paragraphs from the HUD conversion study:

"It has been suggested that converters attempt to earn between 10 and 30 percent of gross sales as profit. Clearly, the money market conditions described above impact on profitability and may be largely responsible for the sharp cutback in conversion activity remains very high, it is unclear that many firms can afford to undertake conversion projects when the carrying costs are as high as 20 to 22 percent (two points over prime, on average). Those potential conversion projects requiring substantial rehabilitation are likely to be the most seriously affected since they will have significant carrying costs associated with them.

"Actual returns on conversion projects already completed have, in some cases, significantly exceeded the 10-30 percent figure. In fact, if developer equity or 'exposure' is used as the base from which to calculate returns, the percentage can be enormous. A rather large complex in Houston was converted earning the developer a before tax, 40 percent profit on gross sales (using the cost of acquisition and rehabilitation as the base for calculation). In San Francisco, a developer expected to at least double his money (\$30 million purchase price plus \$5 million in rehabilitation) on a project already begun. In Los Angeles, a group of investors expect a before-tax return of \$2 million on a conversion project that required only \$50,000 of their own money as equity. That is a return of almost \$40 for every dollar of equity exposed for a relatively short period of time. The potential for returns of this magnitude may account for the fact that some conversion projects are still undertaken despite the large carrying costs associated with current high interest rates."

Effect of Current Building Slowdown

By bidding for scarce mortgage money, the speculator-converter helps to keep mortgage rates high, making it more difficult for prospective homebuyers to finance homepurchases. The converter also bids up the value of existing rental properties. Available long-term funds, thus, are used to create capital gains for property owners and converters instead of to produce additional housing.

Sales of new single-family homes, as well as condominiums have been severely depressed as mortgage interest rates rose from 12 to 15 percent over the past several months. New rental housing investment also becomes infeasible with such long-term rates and construction financing rates that are somewhat higher. The result was a 25 percent decline in the seasonally adjusted annual rate of housing starts to 1.2 million in February. The last annual net household increase figure in March 1980 was 1.75 million. In addition, several hundred thousand units per year must be built each year to replace losses from the supply. And the Reagan Administration is curtailing support for subsidized housing construction.

By the time interest rates come down again to a level that will bring housing construction to a level closer to national requirements, local housing markets will be tighter than ever. The upward trend in condominium conversions would resume and more of the low-income, elderly and minority tenants would suffer displacement, housing deprivation and financial hardship.

Given the outlook for an exacerbation of the problems that give rise to and that stem from conversions, the Congress should review Section 606 of PL 96-399, which is designed to encourage protection of tenants by states. The Section expresses the sense of the Congress that "when multifamily rental housing projects are converted to condominium or cooperative use, tenants in those projects are entitled to adequate notice of pending

conversion and to receive first opportunity to purchase units in converted projects...." The Section also encourages states and communities to move toward that end, and leaves the responsibility to state and local governments. However, in light of the likelihood that relatively short notice may not be meaningful in a locality with little or no affordable rental housing for tenants who must move, there probably is a need for stronger protective measures. And if states and communities do not adopt such measures, Federal intervention would be required.

#### Recommendations

Measures must be adopted to combat the inequity and social stress, as well as inflationary impact of unrestrained conversion of rental properties. Several steps should be considered.

There is a need to enlarge the available rental housing supply for low- and moderate-income people. That would require an expansion of authority for Federally-assisted, newly constructed rental housing to meet those needs, rather than the drastic reductions being proposed by the Reagan Administration.

As a means of combatting inflation, the President may authorize the Federal Reserve to exercise selective credit regulation. That authority under the Credit Control Act of 1969, should be utilized to preclude the financing of condominium conversions until such time as the President determines that the housing supply has been expanded sufficiently, so that available financing and housing stock utilized in conversions will not add to inflation. The exercise of credit regulation should also preclude the use of credit for acquisition of existing housing units for other purposes than occupancy by the owner.

The Congress should reconsider Section 606 of PL 96-399 to determine whether it should provide more specific guidance as to "adequate notice" to tenants or other required action, in buildings to be converted, in localities where an adequate supply of rental units may not be available, and whether to provide for Federal intervention if adequate state or local action is not taken.

Mr. ROSENTHAL. Our next witness is Mr. Daniel Lauber of Evanston, Ill. Mr. Lauber.

**STATEMENT OF DANIEL LAUBER, PRINCIPAL CONSULTANT  
AND PRESIDENT, PLANNING/COMMUNICATIONS**

Mr. LAUBER. My name is Daniel Lauber.

Mr. ROSENTHAL. Mr. Lauber, how do you pronounce it?

Mr. LAUBER. Lauber.

Mr. ROSENTHAL. Lauber. We shall, without objection, include your entire 33-page statement in the record, and we would be very appreciative if you could touch on the highlights.

Mr. LAUBER. My name is Daniel Lauber. I am president of Planning/Communications, a city planning and housing consulting firm based in Evanston, Ill. I have furnished a copy of my résumé to all of you so you can go through my credentials.

My work in condominium conversions includes service as a consultant to Montgomery County, Md.; Woodridge, Ill.; and Philadelphia, Pa. I conducted studies of the effect of conversions on the tax base in Oak Park, Ill., and the effects of conversion on displacement and housing costs in Evanston. I provide technical assistance to officials around the country. I have been coauthor of the monograph, "Condominium Conversion Regulations: Protecting Tenants," authored the first column in the country exclusively devoted to condominium conversion for the Chicago Sun-Times, and have written extensively for Planning magazine, the Journal of Housing, Builders magazine, the Washington Star and the Chicago Daily News. I have a masters of urban planning degree from the University of Illinois, a bachelor of arts degree from the University of Chicago, and have served on the board of directors of the American Society of Planning Officials, the American Planning Association, and am a member of the American Institute of Certified Planners.

Condominium conversions are increasing the monthly housing costs of American consumers roughly somewhere between \$1 billion and \$3 billion. It is probably the most inflationary factor in America today. It is threatening the ability of this country to provide affordable and secure housing to a large segment of America's middle class.

We are all aware of the increasing rate of conversions nationally. I am sure you are aware of the HUD figure of 1.3 percent of the rental stock being converted to condominiums. However, this national figure masks the effects of conversion in local markets.

It is very important that we realize that we are dealing with a local phenomenon, because housing is supplied on a local market



basis, that is spreading on a national scope. What is happening in one city may not be happening in another. In some cities we have 20 percent of the rental stock converted to condos; Boulder, Colo., 18 percent; Walnut Creek, Calif., 15 percent; Evanston, Ill., 14 percent; Oak Park, Ill., 15 percent.

It has been very wise of this committee to call these hearings at this time before condominium conversion changes 20 percent of this Nation's rental housing. This will mean that in some communities there will be virtually no rental housing left at all.

Of course, we have the question before us of why there are conversions. Profit is the main motivation, and there is absolutely nothing in the world wrong with making a profit. Even though every State had created this form of ownership by 1968, conversions didn't take off until the midseventies.

Let me very briefly summarize the reason. In the midseventies, we had a collision of inadequate supply met by growing demand resulting from rapid household formation due to the baby boom coming of age, a rising divorce rate, and other factors. The housing shortage is so severe that HUD estimates that during this decade, we will need 600,000 more units of multifamily housing each year. Prior to the interest rates rising last year observers estimated that only 300,000 of these units will be built and half of those would have to be subsidized.

A third factor is the advent of double-digit inflation which has led people to speculate in housing. It has turned us into what some researchers call the "post-shelter society" where housing is no longer shelter just for your body, but also from taxes and inflation.

The key ingredient that acted as the catalyst was the decline in rental vacancy which has been alluded to earlier. Nationally, we are down to a 4.8-percent level, but in cities where conversions are occurring, vacancy rates are much lower. Evanston, Ill., one-half of 1 percent; Oak Park, 0.9 percent; San Francisco, less than 3 percent. In Atlanta, San Diego, Orange County, Phoenix, Chicago, and other cities where conversions have taken hold, the rental vacancy rates are all low in the neighborhoods where conversions are occurring.

This has created part of what is the artificial market of condominium conversion; the reluctant tenant purchaser. Studies in Chicago and Palo Alto estimate they make up more than 70 percent of the tenants who buy. Even the HUD study found that at least half of the tenants who buy are reluctant purchasers. They are not purchasing for the sake of ownership or tax deductions, they are purchasing for residential security. They are afraid that if they do not buy, they will be unable to find replacement housing in the community. If they do find replacement housing, it too will be converted. That is one segment of the artificial market for converted condominiums.

The other segment is speculators, nonresident investors. According to Home Data Corp., they have bought between 30 and 50 percent of the converted units in Chicago. According to the Montgomery County, Md., Housing Task Force, they have bought 17 percent of the converted units there.

The third segment of the condo market is, of course, natural demand. By itself, it would not be able to support the volume of

conversions in many cities. Natural demand can probably be met by new construction in many jurisdictions. Interestingly enough, rent control has not been a cause of condominium conversion. Cities such as Chicago, Denver, and Houston have no rent controls at all but have a higher rate of conversion than most cities with rent control.

I would like to make it clear, though, that condominium conversion is neutral and I do own a condominium and live in it. Conversions, by themselves, are neither good nor bad. When I was first contacted by Palo Alto in 1974 about condo conversions and their concern that they were losing their low and moderate housing to conversion, I thought that conversion was the greatest idea in the world. It could do no wrong. Since then we have heard all sorts of claims both for and against conversion.

We have heard about effects of conversion on the municipal tax base, on housing costs, and on city revitalization. The validity of these claims are discussed in the written testimony in greater depth. These are not the real issues before this committee. The real issue is the effect condominium conversion will have on the ability of this Nation to provide affordable housing for large segments of its middle class. Studies by nonindustry researchers show that conversions place this ability in jeopardy by inflating the cost of housing at a rate that would make an OPEC oil minister blush.

If you would refer to the table on page 4 which lists quite a few of the studies that have been done by nonindustry investigators, you will find that the average cost of living in a unit increases 60 to 100 percent after conversion to condominium.

You will also find that the displacement rates are 75 to 95 percent. Let me emphasize that these are not transients, contrary to industry spokesmen's claims. In Evanston, the tenants caught in conversions have lived in their units 7.2 years on the average and lived in Evanston an average of 20.57 years. In Oak Park, they have lived in their units an average of 5.7 years and in Oak Park an average of 18.5 years.

A 1975 Washington, D.C., study found that 54 percent of the tenants caught in conversions had lived in their units 5 or more years, and only 14 percent had lived in them less than 1 year. The reason that they are being displaced is that they can't afford to buy. You have already heard testimony about the fact that HUD found only 42 percent could even afford to buy.

Immediate displacement is not the only effect of conversion and not the only concern. There are longer range effects that are of greater concern, I think, to this committee and to this country. First, there is the effect of conversions increasing the cost of housing and tying up mortgage money that could be more productively spent on new construction.

In your own preliminary reports you have the example of the Promenade Apartments tying up an extra \$50 million of mortgage money. This is a universal phenomenon with condo conversion. This helps force up interest rates and service costs and tightens the mortgage market for all home buyers.

Second, by forcing homeowners, condo tenants, people who buy condos to spend more money on housing, on their mortgage, conversion is tying up money that could be spent on durable goods. As

a study by Chase Econometrics told us last week, housing costs in the 1980's are rising to such a level that people are spending 40 percent of their income on housing. It will crowd out other expenditures such as furniture, appliances, automobiles, and other discretionary purchases. Money invested in mortgages doesn't go to work. It doesn't create jobs. What creates jobs is money invested in durable goods. Tell the autoworkers that we should spend 40 percent of our income on housing; people just won't be able to buy cars. That doesn't help. The ripple effects on the economy are potentially disastrous.

Third, by depleting the available rental stock, conversions have helped to fuel inflation in remaining rental units. We were first warned of this inflationary effect in a 1976 report by the Metropolitan Washington Council of Governments. It has since been confirmed by other studies.

The threat of conversion is serious. It threatens a wide spectrum of our affordable housing. Oak Park's 1979 condominium survey questionnaire on page 8 of my testimony notes that Oak Park's supply of middle-, moderate-, and low-income housing is being depleted directly and, perhaps indirectly, by condominium conversions. Clearly, condominium conversions are not restricted to higher rent units in Oak Park.

In Evanston, Ill., the "Human Relations Report" which has since been confirmed by two independent studies, one by the housing division and one that I did, concludes that in this traditionally socioeconomically and racially mixed community, the city must act to prevent condominium conversion from erecting an economic wall that forecloses the entry into the Evanston community of upwardly mobile young families of diverse backgrounds and displacement of present low- and moderate-income families and fixed-income elderly.

New rental construction which the industry seems to say is the only solution doesn't do the job. As Henry Schechter said so well in the *Journal of Housing* in April 1980, the proportion of income that renters are paying for their housing is increased as newly completed units have replaced units taken out of the rental market. Median rents from 1973 to 1977 have increased 9.6 percent a year while the average renter income increased only 5.6 percent a year. By 1977 over 30 percent of renters paid more than 35 percent of their income for rent and over 18 percent paid between 25 and 34 percent.

How anybody expects these renters to be able to afford traditional ownership opportunities when they are paying this much money for rent is beyond me. However, I am sure there is some magical solution. Such hardships are borne by the renters simply because there isn't much of an alternative.

We seem to be going on a suicidal path in our policy toward housing. We are allowing rental units which are affordable to the middle class and provided by the private sector at a profit without Government subsidies, at a profit to be converted to higher cost condominiums at a time when you can't build new, affordable rental housing without Government subsidies. However, you can build new condominiums at a profit without Government subsidies. The net result of this very poorly thought-out policy is higher

housing costs for all Americans and very unproductive use of our capital. The result is inefficient, wasteful, and a very taxing experience for America's taxpayers.

A very good example of what this is doing and how it is costing the taxpayers is what has happened in Chicago where we have the conversion of Sandburg Village which was built on urban renewal land with HUD-insured mortgages. Prior to conversion, tenants there tell me the rent for a 1-bedroom was \$300 a month. After the conversion of this 2,700 unit complex the cost of living in these units doubled and in some cases tripled. As many tax experts will tell you, when they are not being paid by the real estate industry to testify, that the tax benefits do not make up this difference.

To replace this rental housing, some developers are proposing building 3,246 rental units west of Chicago's Loop, called Presidential Towers, using a \$200 million tax-free revenue bond.

Mr. DAUB. That is what I want to ask you about. One of your proposals is, as I read your prepared testimony, your fifth or sixth point, that we are actually contributing to this problem by virtue of HUD loan availability?

Mr. LAUBER. HUD's practices are contributing to this problem. I would appreciate it if perhaps you would let me finish the prepared statement, and then we could get into that specific area. This all ties together.

Mr. DAUB. What you are getting at, though, is there are entities at the local and Federal level that use money for loan purposes that actually reinforce the problem?

Mr. LAUBER. I believe Mr. Bradford will explain that in even more depth.

Mr. DAUB. OK, thank you. Go right ahead.

Mr. ROSENTHAL. Mr. Lauber, we don't have time to go through the prepared statement, really. I wish you could sum it up in about 2 minutes. Make the points that would be most useful for our purposes.

Mr. LAUBER. OK, certainly. You can read all the testimony in here.

The conclusion I have come to is illustrated by this ad offering a free Pinto if you buy a condominium and this ad from the Chicago Tribune for an auction of luxury condominiums from Phoenix, Ariz. This is appealing to speculators, not to purchasers who would live in them. We are getting conversions even if there is a lack of natural demand for them. As I explained, we are in this crazy housing policy allowing conversions when they are taking away housing the private sector is providing at a profit that people can afford and creating a need for new subsidized housing.

Mr. ROSENTHAL. Let me ask a question. What should the Federal Government do, if anything, and why? Can you answer that?

Mr. LAUBER. What I would suggest?

Mr. ROSENTHAL. Can you answer that one, two, three, four?

Mr. LAUBER. Yes. What I would suggest is that the Federal Government work to create a homeownership opportunity that takes housing out of the inflationary cycle, and that is limited equity cooperatives.

Mr. ROSENTHAL. Translate that into English. What does that mean?



Mr. LAUBER. What that means is a limited equity cooperative. Please, Congressman, let me explain. I am trying to answer your question.

Mr. ROSENTHAL. If you lose me, then you are wasting everybody's time.

Mr. LAUBER. I am trying to answer your question.

Mr. ROSENTHAL. What should the Federal Government do, one, two, three, four?

Mr. LAUBER. OK. We will get into explaining limited equity co-ops later.

One, have a 3-year moratorium on conversions to give us the time to develop the necessary programs and laws. Allow conversions only if they meet natural demand; namely, if two-thirds of the tenants agree to buy their units.

Two, adopt a policy encouraging the development and conversion of rental housing to limited equity co-ops. They are the same as any other cooperative, except they limit how much the cost of shares can increase each year. Before President Nixon terminated the program, it was the most successful housing program in this country's history. There was not a single default under it, and they returned \$42 million to the co-op owners.

Three, enact legislation to require lending institutions to provide mortgage funds for limited equity cooperatives on terms no worse than those offered to buyers of conventional homes. In fact, no lending institution with any Federal involvement of any sort should be allowed to give loans to a condominium conversion unless the tenants have been given the opportunity to buy the building themselves and convert to limited equity co-ops. The Government should provide technical and financial assistance to do this.

Four, retain the National Consumer Cooperative Bank with greater funding than it has today.

Five, immediately terminate HUD's practice of converting federally insured or financed buildings threatened with default into condominiums. They should instead be converted to low equity co-ops.

Mr. DAUB. I will slow you down right there and ask that you explain that one, because I think that idea has some merit.

Mr. LAUBER. HUD has, unfortunately, a number of cases where buildings that were HUD-insured where the developer has completely fumbled the ball and gone into default. It started converting the buildings to condominiums. That is just keeping the housing in the higher cost market and putting it into the speculative cycle. This is housing the taxpayer has already subsidized.

Instead, by converting to low equity co-op you are taking it out of the speculative cycle. The reason it goes out of the speculative cycle is because you have one mortgage on this building now as a co-op. Debt service makes up between 30 and 50 percent of the cost of owning a unit or building. If you keep that mortgage the same for 30 or 40 years, you have kept 30 to 50 percent of the cost constant.

Mr. DAUB. Who is HUD letting do this?

Mr. LAUBER. The conversions to condo?

Mr. DAUB. Yes, in the case of the practice you are talking about, which is the conversion to federally insured? Do you have a couple of examples you could give us real quick?

Mr. LAUBER. There is a firm doing two buildings in the Chicago area. These buildings are constructed under 221(d)(4). There is an Oak Brook firm. Those are examples I have right now.

Mr. DAUB. OK, thank you. You can go on to your next solution. I will pursue this later.

Mr. LAUBER. Tenants should be given the right of first refusal to match any contracted offer to buy a building.

The Federal Government should restrict the mortgage interest and property tax deductions on residence property to your principal residents and not allow these deductions for nonresidential, not home, buildings or condo units that you buy but don't live in. In other words, take that incentive away from the speculators.

Mr. ROSENTHAL. Do you think we could get that through this Congress?

Mr. LAUBER. Lord only knows. Actually most people are not involved in this second home purchase deal. There just happens to be this very large lobbying group that will do its best to prevent anything that might restrict conversion practices in this country.

Mr. ROSENTHAL. It is a very interesting idea. I never actually heard of it before. In other words, you could take the interest deduction for the first or the principal home. Beyond that you cannot do it.

Mr. LAUBER. Actually, I believe the Reagan administration in its earlier discussions were talking about something vaguely similar and also putting a cap on how much you could deduct.

Mr. ROSENTHAL. That is an interesting idea.

Mr. Neal.

Mr. NEAL. I am very much aware of the problems that are being discussed here in these hearings. But are there any benefits to condominium conversion? I have been led to believe that there were some benefits to, for instance, young people trying to get into their first home, that in some cases there was the opportunity to get an affordable home through a condominium conversion.

I am just curious if you have any idea of the ratio of detrimental conversions to those conversions that might be of some benefit.

Mr. LAUBER. As a condominium owner, I can tell you the major benefit of living in a condominium is not having a landlord breathing over my back.

As the treasurer of my condominium and having worked with condo associations in the Chicago area, I can tell you that we may be heading toward slumdominiums in many cases. Alderman David Orr has pointed this out in Chicago.

We have cities using community development block grant money to bail out people who have bought condominiums who can't afford special assessments. Oak Park, for example, used \$1,800 of CD money to give an interest-free loan to one low-income person who, as the result of a divorce settlement, was able to buy a condominium and couldn't afford the special assessment. Park Forest has used \$240,000 of CD money to provide an escrow account to enable a condo association of 300 units to get \$400,000 in loan money so they could bring their buildings up to code.

Mr. NEAL. I guess I did not make my question very clear. Are there any examples of condominium conversions that have been beneficial to people? I have been told, for instance, that young people often cannot afford conventional housing because the prices are too high, and they might be able to afford condominiums, the unit price being lower. Condominiums are smaller units of housing. The cost per unit is lower. They might be available to young people and elderly people, for instance, who couldn't afford conventional housing.

Mr. LAUBER. As long as the price of condominiums wouldn't inflate, it would do that. However, inflation in the cost of condominiums has produced a situation. For example, in a neighborhood in Evanston condominiums cost more than some single-family homes. This is not a poor neighborhood.

I think that Mr. Masotti will speak about benefits.

Mr. NEAL. Is the cost per square foot somehow higher in condominiums than it is in conventional housing?

Mr. LAUBER. It has gotten to that point in many areas.

Mr. NEAL. Why would a person then want to buy a condominium instead of a conventional house?

Mr. LAUBER. Let me make it clear. Some houses will cost more than a condominium; some condominiums will cost more than a house. It varies.

Mr. NEAL. Per square foot?

Mr. LAUBER. Yes.

Mr. NEAL. Depending on the quality.

Mr. LAUBER. In areas of immediate in-town, gold coast residences in cities, for example, condominiums are the chance for ownership.

What I am concerned about, and what I think you should be concerned about too is conversions being forced on people when they don't want to buy and people buying reluctantly and tying up money that could be spent on more productive entities. Many cities could probably meet the natural demand for condominiums.

What we have is this crazy situation where affordable units being provided by the private market at a profit are being converted into high-income housing. The only way to replace it is with subsidized housing. Therefore, we are being told, "Taxpayer, you bail us out. We create a situation; taxpayer, you subsidize the middle class."

Mr. NEAL. What you are saying is that in the majority of the cases you are familiar with there is not a common benefit to be gained. In most instances there are more people being forced out of housing than there are opportunities for people to buy housing who didn't have the opportunity?

Mr. LAUBER. The overall picture is substantial displacement, not many people buying because they want to buy, and speculators helping to prop up a market that wouldn't survive without them. Real estate is a market where you can do speculation and where you can control it and manipulate it.

Mr. NEAL. Do we have some figures on that? Do we know the kinds of conversions that have been made? Do we know how many have been made where the tenants are pleased with the conversions and are glad that it happened?



Mr. ROSENTHAL. We have the next witness who has that kind of information in addition to the HUD study which covers this.

Thank you very, very much for your very useful testimony. You realize that my aggressiveness is only because I am controlled by the clock.

Mr. LAUBER. I am fully aware of that. I just hope that each member of the committee will take the time to read through the testimony.

Mr. ROSENTHAL. It is very significant, very important testimony, and I am hopeful that they will.

[Mr. Lauber's prepared statement follows:]

*Testimony presented on March 31, 1981, to the U.S. House of Representatives,  
Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on  
Government Operations*

TOWARDS A RATIONAL HOUSING POLICY: THE ROLE OF CONDOMINIUM CONVERSIONS

March 31, 1981

by Daniel Lauber

America's housing crisis is deepening at a frightening pace. Affordable ownership homes are priced beyond the reach of the vast majority of the population. And now, largely thanks to condominium conversion, a growing segment of America's households finds affordable rental housing to be a disappearing commodity. But unlike many of the other factors causing the astronomical inflation in the cost of housing over the past decade, condominium conversion is a totally artificially created form of ownership (each state legislature had to create this form of ownership through passage of a horizontal property act or condominium conversion act) over which we can exercise considerable control.

These hearings offer an opportunity to examine the effects of condominium conversion on our nation's housing stock and the ability of Americans to afford their housing. In the testimony that follows, I will review the pace of conversions in many municipalities and the conditions under which conversions occur; the effects of conversions on inflation, displacement, and our nation's ability to provide affordable housing to the middle class; the effects of voluntary developer efforts to mitigate adverse effects of conversions; how local laws have attempted to deal with the conversion problem; how the Uniform Condominium Act is being used to prevent local governments from mitigating the adverse effects of conversion; the shortcomings of the U.S. Department of

Housing and Urban Development's study The Conversion of Rental Housing to Condominiums and Cooperatives; and appropriate responses the federal government would be prudent to take to prevent condominium conversion from eliminating much of our affordable housing stock now available to America's middle class.

#### THE HOW AND WHY OF CONVERSIONS

Even though the condominium form of ownership was created in some states as early as 1963, condominium conversion did not become widespread until the last half of the 1970s when the key ingredients for conversion came together:

- a baby boom that grew up and reached the homeownership age;
- an extremely rapid rate of new household formation due to increases in the divorce rate, the baby boom coming of age, a desire of older persons (who were living longer than ever before) to live on their own rather than move in which their children or be committed to nursing homes at an early age, a delay by the baby boomers in getting married;
- a housing shortage due to insufficient new construction to meet demand—a shortage continuing to this very day—in both ownership and rentals;
- the advent of double-digit inflation which led people to speculate in housing — the result of which is what George Sternlieb calls the "post shelter society" in which housing is not just shelter for one's body, but also a shelter from taxes and inflation. (This post-shelter society mindset resulted in "the general public . . . buying properties at an unprecedented pace in an effort to combat inflation or to become overnight millionaires. One of the consequences of over-demand is that, without reason, property values escalate at a rate that is inflationary in and by itself. Buyers believe that it doesn't make any difference what they pay for a piece of property, as the price escalation can't stop." That's what Kenneth L. Kidwell, chairman of the board and president of Eureka Federal Savings and Loan Association wrote in the San Francisco Examiner on May 4, 1980.)

One ingredient was missing, and by the end of the 1974-75 recession it appeared. Rental vacancy rates fell to the lowest levels in decades. In 1961, the national rental vacancy rate was 8.9 percent; in 1965, 8.1 percent; in 1970,

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6.1 percent. By 1978 it had fallen to 5 percent and in 1979 to 4.8 percent.

Housing experts have felt that a vacancy rate of less than 5 percent makes it difficult for low- and moderate-income households to find replacement housing. Once it falls below 3 percent, this task is difficult for any but the most wealthy households.

National figures mask the more significant rental vacancy rates in local markets. The one thread that winds throughout the condominium conversion phenomenon is very low rental vacancy rates in cities or neighborhoods in which conversions take hold. Evanston, Illinois, where over 15 percent of the rentals have been converted to condominium, has a rental vacancy rate of  $\frac{1}{3}$  of 1 percent; Oak Park, Illinois, where over 14 percent of the rentals have been converted has a rental vacancy rate of just under 1 percent. The pattern is the same throughout the country. An extremely tight rental market is essential for any significant number of rentals to be converted to condominium. In an age of supply and demand one would think that the enormous demand represented by these low vacancy rates would lead to the construction of more rentals and retaining existing rentals as rentals. That has not been the case.

Instead, entrepreneurs have chosen to inflate the cost of our affordable rental stock by converting it to more expensive condominiums. As HUD noted in its 1975 study of conversions, the key reason for conversions is a relatively high profit that can be made in a short period of time with relatively little risk. Experience has borne out this observation. Profits in conversion are so high that one developer in Marin County, California, agreed to keep 40 percent of the units in his proposed conversion for moderate income households (initial sale and resale prices are controlled) in order to win permission to convert.

It would be redundant to simply repeat all the reports of profitability of conversions. *Forbes* ("Condomania in Chicago," by Bob Tamarkin, Nov. 13, 1978, pp. 54-59) and *Playboy* ("The Condominium Conspiracy," by Asa Baber, Nov. 1979) give numerous examples that illustrate that condominium conversions are forcing the cost of housing to astronomical heights. One Chicago attorney, Julius Yacker, estimates that consumers of multi-family housing in the Chicago area are spending billions of dollars more for housing than they would have had they been able to convert to low-equity cooperatives beginning in the late 1960s instead of this housing being converted to condominiums or kept in the speculative and inflationary rental market.

These low rental vacancy rates enabled developers to start converting rentals to condominium. Ideally, a developer hopes to sell at least 35 percent of a building's units to resident tenants in order to minimize advertising costs and generate a quick return on investment.

But in general, there just aren't that many tenants who want to purchase. The table below shows that in general, the vast majority of tenants do not purchase when their building is converted to condominium ownership. Many long-term residents of the community, in fact, are forced to leave the community because they cannot find affordable replacement housing there. Many tenants simply cannot buy because, as the last column of the table illustrates, the costs of remaining in their converted apartments increase by 60 to 100 percent, on the average.

Of those who do buy, most do so reluctantly. A study by the Palo Alto Planning Department first identified this phenomenon in 1974 when it found that 72 percent of the tenants who did purchase did not buy voluntarily. Instead, they purchased to achieve residential security. They feared that they could not find affordable replacement housing in Palo Alto, and if they did, it too would be converted to condominium. This finding was replicated in Peter

Findings of Studies on the Effects of Condominium Conversions

Study	Proportion of Tenants Not Purchasing Converted Units, Displacement Rate	Proportion of Displaced Tenants Who Move From Municipality	Increase in Monthly Carrying Costs of Unit When Converted from Rental to Condominium Ownership, Average*
Condominium Survey Questionnaire Report, Oak Park, Illinois, 1979	90%	Not available	60%
Effects of Condominium Conversions on Tenants, Tenants Organization of Evanston, Illinois, 1978	96%	55-73%	60-100% **
Condominium Conversions in the City of Evanston, Illinois, Evanston Human Relations Commission, 1978	80-88%	Not available	100%
Condominium Conversions in Cambridge, Massachusetts, 1978	80%	29+%	Not available
Condominium Conversions in San Francisco, California, 1978	75%	Not available	60%
Condominium Housing: A New Home Ownership Alternative for Metropolitan Washington, WASHCOG, 1975	82.3%	Not available	Not available
District of Columbia Housing Market Analysis, 1978	76%	Not available	Not available
HUD Condominium/Cooperative Study, 1975	75-85%	Not available	30-35%
Palo Alto, California, Condominium Conversion Study, 1974	82%	Not available	Not available

\* Rent versus condominium ownership payments (mortgage, property tax, monthly assessment)  
\*\* Lower figure does not include property tax; higher figure includes property tax

Adels' most thorough study of the Hyde Park community in Chicago Condominium Conversion in Hyde Park, 1965-1979 (A Thesis Presented in Partial Fulfillment of the Requirements for the Degree of Bachelor of Arts in Geography, University of Chicago, 1979, 130 pp.). Indeed, HUD's own study last year found that half the tenant purchasers who expressed an opinion said they would rather be renting than buying their unit (p. 23, Appendix 1-IV). It's these reluctant tenant purchasers who form a significant part of the artificial market for converted condominiums.

The other portion of the artificial market for converted condominiums is the speculator or nonresident investor. Home Data Corporation estimates that between 30 and 50 percent of Chicago area condominiums are owned by nonresident investors. A 1979 survey in Montgomery County, Maryland, found that speculators had purchased 17 percent of the converted condominiums there. These speculators either rent their units out (studies find the rent is typically 175 percent of the preconversion rent) or keep them vacant until they appreciate enough to sell at a profit.

The natural segment of the condominium conversion market is too small to generate the conversions that have occurred in most jurisdictions. There just are not that many households that want to live in and own a condominium. Hence, the artificial markets have been used to create "demand" for converted condominiums. Where communities have enacted ordinances that limit conversion to satisfy natural demand (these ordinances typically impose an automatic moratorium on conversions when the rental vacancy rate is below 3 percent and allow exceptions to the moratorium only if a certain percentage of tenants agree to buy their units or agree to exempt their building from the moratorium), conversions have ground to a halt, in general, or developers have turned to bribery of tenants to get them to agree to the conversion. Bribes in excess of \$3000 have not been uncommon in the District of Columbia - again pointing to the profitability of conversion.

INFLATIONARY EFFECT. The conversion of rentals to condominium is perhaps the most inflationary phenomenon in America today. It would make an oil sheik turn green with envy. How else can you double the cost of housing with the flick of a Bic?

As noted in the table on the preceding page, conversion tends to increase the cost of living in a unit by 60 to 100 percent, on the average. For example, the Sheridan South condominiums in Evanston, Illinois, rented for \$275/month in 1978 (2 bedrooms). A year later the rent escalated to \$375/month when a speculator bought the building. A year later the speculator

completed a tax-free trade with a condominium converter who then sold these units for over \$65,000 each. The monthly cost, at the available 9.5 percent interest rate, came to over \$660. Even with tax deductions (which don't do anyone any good until they receive their tax refund), the cost of living in a 2-bedroom apartment at Sheridan South rose over 100 percent thanks to speculation and conversion. Only 5 of 50 tenants bought their units. Note that the cost of living there has not remained static since monthly assessments (which are not tax deductible) have risen substantially since conversion.

This is not an isolated example. This subcommittee has already uncovered other similar instances of inflation due to conversion. Unfortunately, this inflation in housing costs has significant adverse effects.

First, by increasing the cost of housing, conversion increases the amount of mortgage money required to finance a building. Instead of there being a single mortgage for a rental building, there is now a mortgage for each unit with the grand total of mortgage money being far greater than that invested in the building when it was rental. That ties up mortgage money that could be more productively used for new construction. It also ties up mortgage money for all homebuyers - and helps force up interest rates and service charges.

Second, by forcing households to spend more money on housing, conversion poses ominous implications for the rest of the economy. Instead of spending money on durable goods - automobiles, appliances, furniture - or travel, food, or entertainment, or putting money into savings institutions as savings, households are spending it on a mortgage. As more households spend more than 25 to 30 percent of their income on housing, they must reduce expenditures elsewhere; their discretionary buying power is reduced. Money invested in mortgages do not put people to work! Money invested in durable goods, etc. creates jobs.

Third, by depleting the available rental stock, conversions have helped fuel inflation in rents in the remaining rental units. Chicago Realtor Dempsey Travis notes that increasing condominium conversions are a prime reason for the shrinking supply of starter apartments throughout Chicago. Recent articles in Chicago papers quote apartment managers as blaming condominium conversions for the high rent increases: "Further pushing up the price is the continuing high demand in a shrinking market as more and more buildings are converted to condominium." (*Chicago Sun-Times*, July 13, 1978, p. 1) New household formations continue to outstrip new construction. Many of these households require rental housing for affordability and mobility. Conversions simply



restrict this supply while demand for rentals remains high. As one local apartment manager told me, "With this tight rental market we can raise rents almost as high as we want since people have nowhere else to move."

The Metropolitan Washington Council of Governments was the first to identify inflationary effects of conversions in its April 1976 report, "Condominium Housing: A New Homeownership Alternative for Metropolitan Washington" (p. 204).

#### EFFECTS OF CONVERSION: DISPLACEMENT

An obvious corollary of the inflationary effect of conversion is displacement. As noted in the table on page 3, the vast majority of tenants tend to move out of their converted buildings. The move is usually a result of inability to pay the higher cost of living there. HUD's 1975 study notes that displacement "is an unavoidable by-product of the conversion process. . . . In a city where rental [vacancy] rates are low and where rental units are occupied by the elderly, who are often on fixed incomes, and by low- and moderate-income families, the displacement potential of this conversion process appeared awesome." And as the table on page 3 illustrates, it has indeed proven awesome.

It is important to note that conversions generally occur in relatively stable neighborhoods contrary to propaganda circulated by the conversion industry. In Evanston, Illinois, surveyed tenants caught in conversions had lived in their units an average of 7.2 years and in Evanston an average of 20.57 years. Surveyed Oak Park, Illinois, residents had lived in their apartments an average of 5.5 years and in Oak Park an average of 18.5 years. Only in Mountain View, California, have tenants caught in conversion been found to be relatively short-term residents: 1 to 1.5 years, on the average. Homeowners in Mountain View, though, live in their homes an average of only 4 to 7 years.

Industry spokesmen will often claim that tenants have a turnover rate of 25 or 33 percent annually and that these displacement figures should be reduced by these amounts to accurately reflect the number of tenants who are moving out only due to conversion. However, this is again poor technique and distortion. You cannot apply such general rates to specific buildings being converted because the turnover rates in those buildings are generally very low. For example, in Sheridan South, only 2 to 6 units would change hands each year prior to the conversion in which only 5 of 50 tenants purchased. It really doesn't matter whether you assign a displacement rate of 90 percent or, say 78 percent (assumes 6 tenants would have moved out anyway) — either

way this is a significantly high displacement rate.

#### EFFECTS OF CONVERSION: MEETING MIDDLE-CLASS HOUSING NEEDS

A broad spectrum of tenants are being displaced by conversions.

Oak Park's 1979 Condominium Survey Questionnaire Report concludes:

Oak Park's supply of middle-, moderate-, and low-income housing is being depleted directly, and perhaps indirectly, due to condominium conversions. Rentals found in this study ranged from \$200 a month to \$375, definitely within the range of low- to middle-income housing. Clearly condominium conversion is not restricted to higher rent units in Oak Park.

Similarly, Evanston's Human Relations Commission reached the following conclusion about the traditionally racially and socioeconomically diverse community:

The continued availability of housing affordable, on a rental basis, by low- and moderate-income families and the fixed income elderly cannot be assured by operation of the real estate market place. Thus the city must act . . . to prevent condominium conversion from erecting an economic wall that forecloses the entry into the Evanston community of upwardly mobile young families of diverse backgrounds and displacement of present low- and moderate-income families and the fixed-income elderly.

Even without condominium conversions making units, provided at a profit by the private sector without government subsidy which are affordable to low-, moderate-, and middle-income households, unaffordable to them by substantially inflating their cost, we seem to be fighting a losing battle to meet the demand for affordable housing. According to one widely-used government estimate, our nation will need 600,000 new multifamily units annually this decade to meet the needs of just low- and moderate-income families and to replace substandard apartments. Even before the past year's mortgage-rate increases, projections predicted that only about 300,000 units a year would actually be built, and half of those would require government subsidy. These figures do not include the units needed to replace converted units. Small wonder the General Accounting Office reported to Congress in November 1979 that "the rental housing problem is so severe that it requires the immediate attention of and action by the Congress and the Administration."

And even if new rental housing were built in sufficient quantities, would the displaced due to condominium conversions be much better off? Statistics suggest they would not. As Henry Schechter noted in the Journal of Housing ("Economic squeeze pinches the future of housing," April 1980 pp. 192-196):

"The proportion of renters paying a high percentage of their income for rent has increased as newly completed units carried high rents while older low-rent units were removed from the (housing) supply. Median rents increased an average of 9.6 per cent annually from 1973 to 1977; average renter income increased 5.6 percent per year. By 1977, over 30 percent of renters paid more than 35 percent of their income for rent and over 18 percent paid between 25 and 34 percent.

"Such hardship is borne because there isn't much of an alternative. In the fourth quarter of 1979, almost one-half of the units vacant for rent had zero or one bedroom, obviously not for families with children; 11 percent of the vacant rental units were lacking in some or all plumbing facilities; and 43 percent of them were more than 40 years old. . . . the size and rents of many vacant units did not match the housing needs of their geographic locations."

In fact, we may be on a suicidal path in our housing policy toward condominium conversions. We have a situation in which the private sector is able to provide housing affordable to low-, moderate-, and particularly middle-income households at a profit without government subsidy. (As Jonathan J. Stein, assistant vice-president of Inland Real Estate Corp. told the Chicago Sun-Times, "Our investors are happy with the return on most of the 50 rental project we own." The condominium conversion industry insists that it is not profitable to own rentals anymore. However, the burden of proof rests on them. This subcommittee should be given free access to the financial records of any apartment buildings it chooses to determine their profitability as rental. It is ludicrous to simply accept industry assertions like this one without proof - the excess profit provided by condominium conversions can make industry spokesmen less than honest.)

Yet we cannot provide enough rental housing with new construction to meet demand - and even then it generally requires some subsidy to be affordable to low- or moderate-income households, and even many middle-income households.

Yet we allow these affordable units to be converted to higher cost condominiums which the preconversion residents generally cannot afford to buy.

In the meantime, private industry can provide condominium units via new construction that would meet the natural demand for condominiums and do not require government subsidy to build.

It strikes me as slightly insane to allow these affordable rental units to be converted to condominium when the net result is a need for more subsidized housing and inflation in overall housing costs. Would it not make more sense to keep the affordable rentals as they are and meet the natural demand for condominium ownership through new construction which requires no government subsidy to be profitable?

This absurd public policy where we allow affordable units to be converted to higher cost condominiums made things difficult for low- and moderate-income households long ago. But today it is affecting the middle class as well. Last September the U.S. House of Representatives passed a bill to provide rent supplements to the middle-income households much like Section 8 has subsidized low- and moderate-income households. Former assistant secretary of HUD Chester McGuire recently wrote in Seller/Service magazine (Sept.-Oct. 1980, p. 24) noted that arguments are heard for more widely distributed rental housing subsidies here. "The reason is evident," McGuire writes, "not enough rental housing is being built, which is now affecting the middle class."

While the Administration and most of the Congress have chosen to ignore this situation in which a growing segment of our population can no longer afford housing without spending a disproportionately large share of their inflation-riddled income on housing, a growing number of local jurisdictions are acting to mitigate this adverse effect of condominium conversion.

#### LOCAL EFFORTS TO PRESERVE AFFORDABLE HOUSING IN THE FACE OF CONDOMINIUM CONVERSION

Most cities and counties which have enacted condominium conversion ordinances provide, in those ordinances, for consumer protections such as disclosure statements and inspection reports. Most provide some tenant "protections" as well, largely in terms of a notice of intent to convert. However, a growing number of communities across the country are finally willing to admit that the central issue in the condominium conversion controversy is not consumer or tenant protections. Rather, it is the effect conversions have on a community's ability to meet the housing needs of its residents, particularly middle-class residents.

But, some elected and appointed officials see condominium conversion's inflationary effect as desirable. It gives them a chance to raise housing costs and force out low- and moderate-income residents — a view that seems to be quite prominent among officials in the Chicago area, for example. The conversion phenomenon is the central city's and inner-ring suburbs chance to play their own version of exclusionary zoning, that fun-filled game perfected by the outer-ring suburbs of making it impossible to build affordable housing through a series of restrictive zoning controls. Now the central city and inner-ring suburbs can force up the cost of their housing through condominium conversion and rid themselves of the poor, low-income, moderate-

income, and even middle-income households. With this change they think property taxes will increase even though even HUD's 1980 study shows only a minimal increase, if any, in property tax receipts due to conversions.

Quite a few local officials, and I dare say national office holders as well, see conversion as a good thing because it enables renters to become homeowners. After all, doesn't the National Association of Realtors constantly remind us that the American Dream is homeownership? But what these officials ignore is that for many, if not most renters, homeownership is not their housing dream — at least not homeownership at any cost. Many require the mobility renting affords them. Many cannot afford ownership. Many simply do not want to own. All renters really want is secure and affordable housing. Condominium conversions certainly appear to work against achieving that aim.

Other officials seem to hear only the views of the condominium conversion industry. It's a powerful industry extending far beyond the membership of the National Association of Realtors. The number of middlemen involved in the conversion process — each of which helps force the price of housing up even further — is large. Ever wonder, for example why bar associations oppose restrictions on condominium conversions? It's really very simply self-interest. According to the American Bar Association the single largest portion of the general practitioner's practice is real estate transactions. Those 50,000+ conversions in Chicago alone, for example, provide a lot of transactions for the city's attorneys. After all, you need an attorney to draw up your conversion documents and each buyer and seller needs to hire an attorney.

The title insurance companies are similarly supporting conversions out of self-interest. A rental building of, say, 100 units, has only one title to be insured and searched each time the building is sold. And sales of rental buildings usually do not occur as frequently as houses or condos. Convert that building to condominium, and there are 100 titles to be drawn up, searched, and insured at the time of conversion and first unit sale. Then, as each unit is resold in later years, there is another title search and insurance policy to be issued for each unit. The business of the title company has been increased by thousands of times simply by turning the rental building into a condominium.

Banking institutions are quite pleased with conversions in their own short-sighted way. Conversion of a rental building has often meant termination of a low-interest mortgage the owner obtained years ago. Now the bank can provide a mortgage to each buyer at the going rate, or even

through one of these new renegotiable rate mortgages which protect the banks from inflation and place more of the burden of inflation on the consumer. Since the condo units will change hands more frequently than the whole building did as a single commodity, the lending institutions will be able to replace old mortgages with new ones at presumably higher rates and will, of course, charge those service points on each resale. Conversions are impossible without the cooperation of the lending industry. They've lent the money to the developers; they've lent the money to the nonresident speculators. They've let the amount of mortgage money tied up in a single structure skyrocket through condominium conversion. As this committee has noted before, the Promenade Apartments in Bethesda, Maryland, is a fine illustration of the effect of conversions on the availability of mortgage money. Bought by American Invsco for \$49 million, it will sell out for between \$95 and \$100 million. That's about \$50 million in mortgage money tied up in a building simply by converting it to condominium. That \$50 million could have been more productively used to finance new construction. Instead, it was used to inflate the cost of housing.

It doesn't stop with the lending institutions. Real estate appraisers prefer conversions because they increase the number of dwelling units that require appraisals for financing at the same astronomical rate as the title companies enjoy. Similarly, we find land surveyors and engineers testifying against conversion controls out of the same self-interest.

To be complete, I should mention the really big winners in the condo conversion game. First there are the developers themselves who, as discussed earlier enjoy huge profits with usually little risk or investment. Second, there are the landlords who can receive an extra 30 percent when they sell their buildings to a converter. Third, there are the Realtors who earn commissions on the sale and resale of each unit. Like the title companies, conversion opens up a whole new world for real estate salespersons. And last, but certainly not least, there are the speculators who have turned shelter into a speculative investment. Indeed, a condo may not be a home.

Combined, these professions form a formidable lobby against any restriction on condominium conversions. But a growing number of communities recognize the destructive effect of conversions and have responded to the housing needs of their residents by putting a limit on the privilege of conversion. (NOTE: Conversion is a privilege rather than a right. Each state legislature had to create this form of property ownership. Hence, each legislature, or localities acting through home rule powers, may limit

further creations of the condominium form of ownership. What the government giveth, the government may taketh away.)

#### LIMITS ON CONVERSIONS TO PRESERVE AFFORDABLE HOUSING

A growing number of communities have placed a limit on condominium conversions as part of an effort to preserve affordable housing. I do not pretend that the list of communities I am about to present is complete. It is more complete than that provided by HUD in its 1980 study. But each week, it seems, another community is curtailing condominium conversions for the express purpose of preserving affordable housing.

There are six basic techniques used to preserve affordable housing in the face of condominium conversions. The first was pioneered by Palo Alto, California, in 1974. For seven years, Palo Alto has imposed what amounts to an automatic moratorium on conversions whenever the rental vacancy rate is below 3 percent. Since it has not risen above 2 percent in that time, conversions have essentially been halted with, according to the planning staff, none of the disastrous effects the real estate lobby insists will happen (deterioration of rental stock, fall in property values and taxes, abandonment). The only exemption to this automatic moratorium has been if 2/3 of the tenants agree in writing to exempt the building from it. This has happened twice. Once for a three-flat and last October for a major apartment complex comprising more than 10 percent of the city's rental housing. (An ex-Mayor essentially "bribed" tenants to agree to the conversion by offering long-term leases and other goodies.) At this moment Palo Alto has imposed a complete moratorium on conversions while its law is revised to prevent such wholesale conversions in the future.

Other cities using the same basic approach include: District of Columbia (3% vacancy rate; 51% tenant approval to exempt); Cambridge, MA (4%); Vail, CO (3%); and the California jurisdictions of Claremont (3%), Cupertino (5%), Fremont (3%), Gardena (3%), Hayward (5%), Marin County (5%), Los Angeles (5% by planning area), Montclair (3%), Newport Beach (5%; 67% to exempt), Orange County (5%), Palo Alto (3%; 67% to exempt), San Bernadino (6%; 67% to exempt), San Diego (5%), Santa Monica (5%; 80% must buy to exempt).

A second technique, not quite as effective but still useful, is to limit the number of conversions in any one year to a percentage of the rental stock or to a percentage of new rental units built during the preceding 2 years. Jurisdictions employing this technique include the California cities of Albany, La Mesa, Mountain View, Oakland, Riverside, San Francisco, and Walnut Creek.



A third technique, just as effective as the first, is to require some form of tenant approval, either in the form of a specified proportion of tenants voting to approve the conversion or a set percentage of tenants agreeing to purchase their units. This approach assumes that tenants voting to approve either plan to purchase or have someplace to move. California cities using this approach include San Francisco (40% must agree to purchase; city is trying to close loopholes), Newport Beach (30% vote), and Thousand Oaks (50% vote). New York City requires that 35% of the tenants agree to purchase for an eviction plan to be filed and 15% agree to purchase if no eviction plan is to be filed. The New York Attorney General has recommended that these figures be increased, partially because developers have abused the current system.

A fourth technique requires the city to consider the effect the proposed conversion would have on the balance of the community's housing stock. Lynnwood, WA; Cambridge, MA; and Vail, CO, employ this condition when considering conversion applications. These California jurisdictions also use this approach: Belmont, Concord, Gardena, Marin County, Mountain View, Oceanside, Thousand Oaks.

A number of jurisdictions consider the potential for displacement of tenants in general or members of specific classes such as the elderly or handicapped. These include Aspen, CO; and the California cities of Albany, Concord, Duarte, Gardena, Mountain View, San Francisco, and Thousand Oaks.

The sixth and final technique involves requiring a developer to retain units as low- or moderate-income. Marin County, CA, uses this approach with much success. As noted earlier, one developer agreed to keep 40 percent of one development low- and moderate-income in order to win approval for his conversion. San Francisco requires the retention of all low- and moderate-income units as such in any conversion. In conversions of 50 or more units, at least 10 percent of the units must be made low- or moderate-income. These units are kept as low- or moderate-income either as rentals or through controlled initial sale and resales.

Washington, DC, and Montgomery County, Maryland, use a seventh and the most promising technique available. They give the tenants in a building the right of first refusal to purchase their buildings anytime they are for sale or sold. In the first 18 months of operation the Washington, DC, program has been a resounding success — so successful that developers are now suing. While 4300 units were still converted by condominium developers during this time, another 2700 were in buildings purchased by the tenants themselves.

Nearly 500 of these were converted to limited-equity cooperatives with technical and financial assistance provided by the District's Housing Business Resources Administration from a series of revolving loan funds which the tenants repay with the permanent financing they receive from the private sector.

Herein lies the most promising technique to preserve affordable housing: the use of low-equity or limited-equity cooperatives. This form of housing takes the building out of the inflationary speculative cycle of rentals and condominiums and keeps it affordable nearly forever.

A limited-equity cooperative is like any other cooperative in the sense that residents own shares in a cooperative association which actually owns the building. However, in a limited-equity cooperative, the resale value of the shares is controlled by the coop's articles of incorporation or by-laws. The limit can be most anything: 5% increase a year, \$100 increase annually, \$400 annually, 10% annually. The key factor is that the increase in the cost of shares is kept less than the general inflation rate. Shares cannot be the object of speculation. This approach recognizes housing as shelter for bodies, not income.

Under the cooperative form of ownership, each resident purchases shares that entitle him/her to occupy a unit. For low-equity coops, this cost is usually no greater than what a tenant must pay when he rents an apartment (first month's rent, last month's rent, security deposit). In the District, the initial cost of these shares has run from \$500 (the most common figure) to \$3500 (in one case).

The "owner" of a low-equity cooperative enjoys both the benefits of homeownership and renting. Each month he pays an assessment that covers the operating costs of the building and the ownership costs (mortgage payment, property tax, etc.). The portion of this monthly payment that goes toward the interest on the mortgage and the property tax are deductible on his federal income tax as for any homeowner. But since there is invariably a waiting list to join a low-equity cooperative and there are virtually no closing costs involved in the transfer of shares, all the middleman costs associated with the resale of condominium units are eliminated. There's no title to be searched or insured since there is still only one title for the building; no appraisal to be made, no attorney to hire for hours of work, no mortgage to be issued, etc. Small wonder spokespersons for these groups rarely have a good word to say for low-equity cooperatives. They've got no financial benefit to be realized from them.

However, the shareholder and the public derive considerable benefit from limited-equity cooperatives. First, as a cooperative there is but one mortgage on the building and, unless some disaster requires substantial injections of funds, it will not have to be mortgaged again. Hence, the debt service is constant and since that composes from 30 to 50 percent of the cost of ownership, increases in monthly assessments will be needed only to cover increases in actual operating costs (maintenance, utilities, property tax, insurance, etc.). There will be no increases in the monthly assessment for debt service unlike, say, an apartment building which is sold and the new owner must increase the rent simply to cover the higher debt service he must pay.

To put this in concrete terms, consider the low-equity cooperatives in Park Forest, Illinois. The village planner there paid \$165/month when he first moved in eight years ago. Today he pays \$235/month. Not bad for a 2-bedroom townhouse. He has saved so much money that he could spend it on such items as a new car and better furnishings. He has saved enough that he could purchase a home if he so chose. And his experience is typical. All it takes is a decision to treat your housing as shelter rather than a speculative investment.

The success of low-equity cooperatives as a means of providing and preserving affordable housing is legendary. The FHA's 213 program (mortgage insurance for low-equity cooperatives for moderate-income households) was so successful that the Federal Government returned \$41.5 million to the cooperatives as mortgage insurance dividends because there were no defaults. This repayment record is better than that of any other FHA or HUD program. Naturally, Richard Nixon nixed this program in 1971.

The public benefits because by taking units out of the inflationary speculative cycle, low-equity cooperatives help preserve badly needed affordable housing without using Section 8-type subsidies that only fuel inflation. As Chester McGuire reports, "Direct subsidies do not alter the economic rent, only who pays it." Section 8 and other direct subsidies have done nothing to deal with the major cause of inflation in housing: speculation, the repeated resale of properties to generate a profit. Officials in Montgomery County, Maryland, estimate that to replace existing rental units worth \$8500 to \$15,000 each with new construction will take \$35,000 to \$42,500. To make such new construction affordable to low- or moderate-income households, some subsidy is necessary. However, even then the rents will be higher than in existing buildings.

Limited-equity cooperatives, though, avoid this inflationary pitfall.

The experience of Washington, DC, demonstrates that limited-equity cooperatives offer the best opportunity to preserve affordable housing in the face of speculation and condominium conversion. And the sort of law that the District of Columbia has that gives tenants the right of first refusal to purchase their building (namely, if a third party makes an offer, the owner must sell to the tenants instead if they can match that offer), combined with revolving loan funds and technical assistance makes low-equity cooperatives a practicality.

Montgomery County, Maryland, recently enacted a similar law which has already been taken to court by developers fearful that such noninflationary and nonspeculative housing could shut them out. They had earlier overturned a similar Montgomery County law which applied only to buildings that were converting to condominium. The new law applies to the sale of any rental building. But thanks to state pre-emption of local municipalities on condominium conversions, the earlier Montgomery County law was discarded by the court.

#### THE UNIFORM CONDOMINIUM ACT: A THREAT TO PRESERVING AFFORDABLE HOUSING

Montgomery County's law was thrown out by the court because it violated a provision of state law based on the Uniform Condominium Act. This provision states:

"A zoning, subdivision, building code, or other real estate law, ordinance, or regulation may not prohibit the condominium form of ownership or impose any requirement upon a condominium which it would not impose upon a physically identical development under a different form of ownership." (§1-106)

This provision would effectively prohibit the use of every technique that has been used to preserve affordable housing in the face of condominium conversions. There is no reason for this prohibition except to promote the financial interests of the condominium conversion industry. But that is hardly surprising since the 18 member committee that wrote the UCA contained 17 persons involved in the conversion industry. It was approved by the National Conference of Commissioners on Uniform State Laws and has been supported by bar associations across the country.

Now, if the UCA was really a more responsible law than that enacted by municipalities, I suppose there would be little problem with it.

However, as Massachusetts State Representative John Businger has said, "It's a four month notice to get out. It's a sham."

Indeed, the UCA is even weaker in the area of consumer protection than some of the state laws it would replace. And it is certainly weaker

on tenant protections and consumer protections offered by many of the municipal laws it would eliminate by pre-emption.

In fact, it appears that pre-emption of local laws is the main aim of proponents of the Uniform Condominium Act (UCA). It took just four months after Philadelphia adopted an 18-month moratorium on conversions for the condo conversion industry to ram the UCA through the Pennsylvania State Legislature despite heavy lobbying efforts by well-organized groups of housing consumers. The pre-emption provision of the UCA has, of course, made it difficult for Montgomery County, Maryland, to control the conversion tide. It has prevented Milwaukee, Wisconsin, from dealing with the new wave of conversions spearheaded by American InvSCO. (With less than 30 percent of its housing stock rental, Milwaukee can ill-afford to lose any of it to conversion.) State Senator Jim Moody has introduced legislation to eliminate the pre-emption provision in Wisconsin's state law. He faces a difficult fight.

And now the Illinois Association of Realtors and Chicago Bar Association have the adoption of the UCA with its pre-emptive provision as a top priority for 1981 in Illinois. This just happens to come at a time when aldermen in Chicago and Evanston are giving serious consideration to restricting forced conversions and developing ordinances and programs based on those used in Washington, DC, to encourage conversion to limited-equity cooperatives.

The only argument of any apparent merit in support of a uniform state law, at first, seems to be that a single law would prevent developers from being confused by differing local requirements. Never mind that each municipality may have different housing needs and that conversions can have profoundly different impacts depending on the nature of a community. The older housing stock of one community may require stricter code compliance before conversion than the newer stock in another community.

But the argument for uniform treatment throughout a state is one of the most unfounded ever devised. If developers are confused by differing local condo conversion laws, would they not also be confused by differing local building codes or zoning ordinances? Maybe we should have a single building code in each state or a single zoning ordinance for each state. In fact, since so many developers are going national, we wouldn't want them to be confused by a different condominium law in each state, would we? Let's have a single condominium law nationally; a single building code nationally; a single zoning law nationally.

Just as a single building code or zoning law for a state, or the

nation is unwarranted, so is a single uniform condominium law. The only reason the conversion industry wants such laws that pre-empt local jurisdictions, is because they can better control state legislatures and prevent enactment of laws that might restrict conversions in order to preserve affordable housing. With the UCA, the conversion industry can throw up an unbeatable roadblock to efforts to preserve affordable housing. The UCA ought to be a national scandal and the self-serving, selfish, and irresponsible proponents of the UCA ought to be exposed for what they are.

#### VOLUNTARY INDUSTRY MEASURES

Often we hear the hue and cry of an industry that the industry should be allowed to regulate itself. Unfortunately, this amounts to letting the fox guard the chicken as the UCA does.

Voluntary developer measures have frequently been failures in the sense that they do nothing to preserve affordable housing. Generally they are intended to ease the burden of conversion a little.

Chicago's Robert Sheridan, for example, offered two-year lease extensions to the elderly in his Edgewater Beach conversion. However, he was surprised at the low response rate. That is not the slightest bit surprising if you bother to talk to the elderly who are caught up in a condominium conversion.

A brief lease extension like that only prolongs the agony. In two years the elderly tenant is out anyway and in two years he or she may have an even more difficult time finding an apartment due to greater infirmity of old age or an even lower rental vacancy rate. One may almost get the feeling that developers hope the elderly will die off in this two-year period so the only relocation they will need is to a cemetery.

Nothing short of a life lease with restrictions on rent increases will do for the elderly caught in a building converting to condominium. The only catch is how to prevent discrimination against the elderly in the rental of apartments when such a law is in effect. Generally jurisdictions with such laws also have moderate rent control laws which make it very difficult to deny a rental to an elderly person on the basis of age.

But is there really any reason to expect condo converters to really care? After all these are the same folks who persist in conducting misleading advertising campaigns to sell their units. What developer has not run an advertisement showing how owning a condominium reduces your cost of living

thanks to the income tax deductions afforded homeowners? (Admittedly this is the single largest government subsidy in the housing field. For the past fiscal year it will come to over \$18 billion.)

Typically the converter will show your new monthly cost due to mortgage payments, property tax, and monthly condominium assessment. Then he will show how much of this you can deduct from your income taxes assuming you are in a certain tax bracket. That gives you the "real" "cost" of ownership. What the developer does not tell you is that you have a standard deduction coming anyway, whether or not you own. To be honest, the developer should subtract that standard deduction (\$3400 for a married couple, \$2300 for a single person, \$1700 for a married person filing a separate return) from his estimate of tax savings since homeownership does not give you that first \$3400/2300/1700 of deductions - everyone gets it. That will show that the actual tax benefits are minimal. For my condominium a developer's typical ad would show income tax savings of \$3000 in homeownership deductions, or roughly a \$1000 tax savings. Actually, I've got \$2300 of that deduction coming to me anyway as does any taxpayer who takes a standard deduction. So my actual tax savings due to ownership comes to only one-third of \$700, or \$233, less than \$20/month. My actual itemized deductions came to roughly \$1400 after the standard deduction was subtracted; so my tax savings total came to \$40/month, hardly the figure that would be advertised.

#### THE HUD CONDO STUDY: SLOPPY RESEARCH REWARDED

HUD's 1980 study, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes, and Impacts is certainly a massive work of art. Unfortunately, it is a work of deception, sloppy research technique, and misinformation as well. I think Congress should demand its money back!

The study's most glaring deficiencies include its concentration on national figures on the number of conversions. This is a sloppy and misleading approach since we do not have a single national housing market. Instead we have small regional and local housing markets in which a high rate of conversions is masked by national figures. Nationally, the HUD study found that "only" 1.3 percent of the country's occupied rental stock had been converted to condominiums (and cooperatives—not limited-equity) between 1970 and 1977. The study's authors persist in emphasizing this figure when they know full well that it is meaningless. We will not have



a high national figure until conversions overwhelm more cities — and by then it will be too late to do anything about them. We will have lost a staggering proportion of our affordable housing stock to higher cost condominiums and the only response will be more inflationary subsidies to get rentals built. The study does admit that conversions have affected a substantial proportion of rentals in many cities — although it would have been more "honest" to report on the number of conversions in terms of their proportion in individual housing markets.

For example, Evanston, Illinois, has seen over 15 percent of its rentals converted to condominium. But when buried in the national picture the significance of this figure is lost. Even when aggregated within the Chicago SMSA — which consists of several separate housing markets — the Evanston figure is lost.

This attempt to minimize the impact of conversions is typical of the sloppy or misleading efforts of the HUD study. I still cannot understand, for example, the value of the study's model of the effects of conversion on the rental market. Like most models it assumes away reality and operates only in a hypothetical world. Never does the concept of reluctant tenant purchasers enter into the model. The study even warns that this is a hypothetical model and that "the effect of conversions is likely to differ from market to market and, therefore, the national aggregated effect may not adequately describe the results of conversion activity in any particular locality." (p. VII-2) That's a good warning. Too bad even HUD's publicists did not heed it. This model has been misused in HUD press releases and other publicity to show virtually no loss of rentals due to conversion. Yet even the study admits it does not reflect reality. So, why include it?

Rather than spend a few dozen pages criticizing the HUD study, I would refer you to the attached article in Appendix A, "HUD Blesses Condomania," by Peter Dreier which appeared in the Sept/Oct 1980 issue of Working Papers (pp. 53-58). Having worked with Professor Dreier in the preparation of the article, it would be redundant to repeat its criticisms. Just read the article for a thorough evaluation of HUD's study.

# WHERE DO WE GO FROM HERE: A FEDERAL ROLE?

Housing is certainly a matter of national concern. Even if you ignore decades of federal involvement in the effort to provide affordable housing, there is still the fact that much of the nation's mortgage money is provided by federally-insured lending institutions operating under federal rules and regulations and the fact that conversion activity is hardly restricted to one or two states. Condominium converters today operate in many states not just one. The sale of converted units is an interstate commerce as clearly depicted by an advertisement in the March 17, 1981 issue of the Chicago Tribune (section 4, page 8) for an auction of 66 luxury condominiums . . . in Phoenix, Arizona. In addition, federal income tax laws provide the nation's single largest housing subsidy (more than \$18 billion annually) to homeowners and any activity that would increase the size of that subsidy such as condominium conversion is certainly a matter for national public policy and action.

Today we have a most puzzling public policy toward housing, both nationally and in all but a few dozen municipalities. We allow existing rental housing affordable to middle, moderate, and low income households that is provided at a profit by the private sector, to be converted into higher cost condominiums that a growing number of persons in these income groups cannot afford — unless they want to spend much more than 25 percent of their income on housing.

At this same time, we recognize that it is virtually impossible to build new rental housing for members of these income groups without using taxpayer subsidies to essentially guarantee profits for the builders.

Concomitantly, we are aware that it is certainly quite profitable to construct new condominiums, which, frankly, by themselves could meet the natural demand for condominium ownership in most communities.

This approach is clearly an inefficient waste of the taxpayers money and a chief contributor to inflation because it allows existing affordable housing to be replaced by more expensive housing and creates a need for more government subsidized housing to replace the converted units. If you don't think this is inflationary, consider the rents in the replacement housing. In San Francisco, Section 8 walkups call for as much as \$804 in monthly rent. A three-bedroom walkup in Washington, DC, will cost \$564/month; the allowable Section 8 rent in the District for a 3-bedroom apartment in a five-story elevator building is \$978. Perhaps one of the most dramatic examples of how this policy is

wasteful, inefficient, and taxing on America's pocketbook, is the conversion of Sandburg Village in Chicago and the proposed subsidized construction of Presidential Towers to replace the loss of Sandburg's rental units.

Sandburg Village is a 2700-unit complex of HUD-insured buildings constructed on urban renewal land on the near north side of Chicago. Rent for a one-bedroom apartment just prior to conversion was less than \$300/monthly according to several long-term tenants there. Conversion more than doubled, in some cases tripled, the monthly cost of living in Sandburg. To replace these rental units — which have already enjoyed subsidies in terms of urban renewal and HUD insurance — developers have proposed constructing 3246 rental units just west of Chicago's "Loop" using \$200 million in tax-free mortgage revenue bonds to help finance the deal. These publicly-issued bonds, of course, won't generate much tax money — in fact they'll be used as a tax shelter by purchasers. Rent in the Presidential Towers, assuming occupancy within 5 years: over \$600/month for a studio, over \$700/month for a one-bedroom. Rents in Sandburg would never have risen that level in that time period. Overall, housing consumers wind up paying more and the taxpayers wind up subsidizing new construction to replace rentals that never should have been allowed to convert in the first place. Try to imagine how much cheaper it would have been to the taxpayer if Sandburg had been kept rental and Presidential Towers were built as condominium without any subsidy.

There appears no way to get the general rate of inflation under control without first limiting inflation in the components of that general rate. Condominium conversion spurs inflation in housing costs; in fact it is the single greatest inflation producer in this country today by virtue of its ability to double monthly housing costs with the flick of a pen.

But some might argue that conversion will always be pretty limited; that developers only want to convert the luxury buildings. Of course, municipal studies mentioned earlier demonstrate that buildings housing middle, low, and moderate income households are being converted. But let's not rely solely on municipal studies. Let's listen to what the condominium conversion industry says in its unguarded moments about the future of condominium conversions:

Harold Miller, converter of Sandburg Village: *"Everything's going to be converted and I'm right."* (Interview with Daniel Lauber)

Roberta Sellers of Gold Coast Residences (converters in Chicago): *The condominium conversion wave will endure "as long as there's anything left to convert."* (*Chicago Sun-Times*, March 9, 1979, p. 76)

The Marling Group, Ltd, Northfield, IL based national real estate consulting and development firm: "The supply of desirable condominium conversion products will continue to dwindle until almost all of the desirable rental properties, which are free from conversion legislation, are converted." (Press release, "National Study Charts Luxury Condo Prices, Comments on Future Trends," Sept. 10, 1980)

David Kaufman, condominium broker: "You'd have to go into a really bad neighborhood to find a rental building that won't go condo. You could darn near condo a doghouse today." (Chicago Sun-Times, Feb. 12, 1978, p. 8)

Samuel Zell, president of Equity & Financial Management Co. of Chicago:

"Not only highrise buildings lining the lakefront will go condo, but the two- and three-flat buildings of the North Side should also be converted to condos, says Zell. 'It's spreading there already. Where people have the opportunity and it's economically feasible, they'll convert to condos.'

[Zell] predicts there will be no more rental apartment buildings in the United States in the next 10 to 15 years." (Chicago Tribune, "Renters to become extinct, investor says," June 24, 1979, Section 14, p. 1E)

Bruce Steele, chief of housing, Washington Area Council of Governments:

"There is no such thing as a non-convertible building so long as the general locational aspects are there." (Washington Star, Jan. 25, 1981, p. C-1)

There is no doubt about it: condominium conversion threatens the very existence of our nation's affordable rental housing stock.

America is caught between the proverbial rock and hard place. We are allowing our affordable rental housing to be converted to more expensive condominiums while at the same time we cannot replace it without government subsidies which have always been too few and too late. It's just too expensive to build affordable rental housing today without government assistance. As 70 year old Harry Helmsley, our nation's largest individual landlord (his firm Helmsley-Spear controls \$3 billion worth of commercial and residential real estate developments) says the day is past when middle-income America can afford to rent a new apartment because there is no one left who can afford to build it. (Chicago Tribune, Nov. 15, 1979, Section 6, page 9)

Instead of limiting the very inflationary condominium conversion phenomenon, we have allowed it to continue. But can Americans continue to afford the kind of inflation conversion has brought us? I would roughly estimate that condominium conversion alone inflated the actual amount of money spent on housing in the 1970s by over \$3 billion. That is money that could have been put to better use on durable goods which create jobs. And that figure does not include the additional money tied up in mortgages for the inflated price of condominium real estate.

What's a country to do? We could continue to allow the cost of housing rise beyond the reach of the middle-class. There are, after all, many observers who feel we are heading into an "unaffordable" society in which there will be a small but wealthy upper class that can afford nearly anything it wants, and a massive lower class that can barely afford daily necessities and will require public subsidy to house itself. The middle-class, according to this scenario, will find its quality of life declining as discretionary income disappears. Housing, as Samuel Zell suggests, will cost 40, 50, or more percent of our incomes. Even so "establishment" as firm as Chase Econometrics is forecasting that in this decade the cost of housing will be so high that the purchase of homes will tend to "crowd out" the purchases of consumer durables, especially furniture. (Reported in Chicago Tribune, March 29, 1981, Section 5, page 1)

But it does not have to be this way. A little common sense and pragmatic public policies designed to serve America's population rather than the speculative forces of the housing industry can head it off at the pass. I would suggest that this subcommittee, the Congress, and the Administration pursue the following policies and undertake the following suggested actions to assure a sound supply of affordable housing for America's middle-class during the remainder of the twentieth century and beyond:

- Enact a three-year national moratorium on condominium conversions with exemptions only for buildings in which two-thirds of the tenants agree to purchase their units without coercion and threat of eviction of any sort.

This moratorium is essential to provide time for the Congress and the Administration to develop the other programs and policies recommended here to preserve our affordable housing. Allowing conversions to continue during this time would only setback the nation's efforts by allowing affordable housing to be converted into higher cost housing. Congressman Rosenthal has already introduced legislation of this type - nearly two years ago.

- Adopt a policy of encouraging the removal of rental stock from the inflationary speculative cycle through conversion to limited-equity cooperatives.

As explained earlier, limited-equity cooperatives take housing out of the speculative cycle that is the major cause of inflation in housing costs today. Earlier illustrations have shown how low-equity cooperatives fight inflation by keeping a constant debt service until expiration of the mortgage (at which time a new mortgage is not necessary and monthly costs can either be reduced or kept constant and used for any needed rehabilitation).

This policy would not contradict the national policy to encourage homeownership since low-equity cooperatives are a form of homeownership. As demonstrated by the FHA 213 program, low-equity cooperatives are one of the soundest forms of homeownership available. Their only "fault" is that they do not provide business for the inflationary middle-men of the condominium conversion industry.

- Enact legislation to require lending institutions to provide mortgage funds for limited-equity cooperatives on terms no worse than those offered buyers of conventional homes.

Most lending institutions refuse to finance limited-equity cooperatives out of ignorance. Sometimes it requires federal action to overcome such ignorance. When business operations are unable to think beyond today's profits they lose track of long-term interests. Our automobile manufacturers are the perfect example of this failure. If the federal government had not mandated fuel economy goals years ago, our automobile companies would not have started planning to build fuel efficient vehicles until last year. They would be in even worse shape vis a vis foreign manufacturers than they are now.

Similarly, our lending institutions are either unaware of the superb track record limited-equity cooperatives have established, or they are simply interested in pursuing the greater short-term profitability of condominium financing. Either way, any federally-insured lending institution should be required to provide financing to limited-equity cooperatives in order to qualify for any federal insurance.

- Provide technical and financial assistance to tenant associations to purchase their buildings and convert to low-equity cooperatives. This assistance should be available to middle-income as well as low- and moderate-income tenants.

Revolving loan funds can be used to provide the financial assistance. Tenant associations can repay the borrowed money out of funds they receive for permanent financing from the private market. The First Purchase Loan Program in Washington, DC demonstrates that this technique is most feasible and successful.

Municipal planning departments can provide the technical assistance tenants will need to convert to low-equity cooperatives. Again, the program in the District of Columbia shows this approach works as long as competent people administer it.

- Retain the National Consumer Cooperative Bank with greater funding than it has today.

This bank can provide loans for limited-equity cooperatives until the other mechanisms suggest here can be put into operation. The Coop Bank offers an opportunity to get the low-equity cooperative program off the ground and establish more examples of how successful these coops are. Even though there are plenty of excellent examples of these cooperatives today, the banking industry may need more examples before it recognizes their value.

- Immediately terminate HUD's practice of converting federally-insured or financed buildings into condominiums when threatened with default.

These conversions serve no purpose except to inflate housing costs. Even when prices are set so moderate-income families can afford them initially, speculation will soon price the moderate-income household out of the building. In addition, moderate-income households are often unable to afford steep special assessments to correct building faults. Oak Park, Illinois, for example, provided a \$1800 interest-free loan to one moderate-income household to cover a \$1800 special assessment. The village used Community Development Block Grant funds.

Park Forest had to place over \$240,000 of community development funds in escrow before any bank would loan a local condominium association (over 300 units) over \$400,000 so they could bring the common areas in the buildings up to village codes — just three years after conversion. Residents were largely middle-income households that simply could not afford the \$1000 to \$1500 cost of a special assessment.

The key point is that condominium ownership is still inflationary. Instead of converting these buildings to condominium, HUD should be converting them to limited-equity cooperatives. At a bare minimum, the tenants in these buildings should be given a choice.

- Require that tenants be given the right of first refusal to match a contracted offer to buy a rental building.

The specific details of how this approach would work are already being implemented by the District of Columbia. There is no good reason why the timetables and rules governing this process in the District of Columbia cannot be used nationally.

This requirement can be implemented by prohibiting the use of the U.S. mails and any federally-insured lending institution for the sale of any rental property unless this requirement is met.

This requirement is essential to implementing a policy encouraging the conversion of rental housing to limited-equity cooperatives. It gives the housing consumer a choice between continued renting, condominium ownership, and ownership in a limited-equity cooperative. It would help stop the forced conversion of affordable rental housing to more expensive condominiums.



Adoption of these policies and implementing activities will help preserve America's dwindling supply of housing affordable to middle-income and low- and moderate-income households without the commitment of large inflationary amounts of taxpayer dollars.

We can no longer delay. Housing is too essential to allow it to remain an object of speculation. As the United State Supreme Court said in Block v. Hirsch, 256 U.S. 135 (1920):

"Housing is a necessity of life. All the elements of a public interest justifying some degree of public control are present."

Local governments have generally failed to act to preserve our affordable housing. When they have, they have relied heavily on the support of federal dollars for inflationary housing subsidies. The failure of local government to act necessitates federal action, as is so often the case.

It would truly be a shame, five or ten years from now when America's middle-class can no longer afford housing, to have our politicians bemoan this situation and say, "Isn't it too bad nobody did anything about this housing crisis in 1981, before it got too big to handle?" I suspect the response will be to throw more good money after bad through inflationary government subsidies rather than decide to remove affordable housing from the inflationary speculative cycle through conversion to limited-equity cooperatives.

But unless the action and policies called for here are adopted and implemented within the next few years, America's middle class faces an otherwise unavoidable housing disaster, the likes of which we have not seen since the Great Depression.

If this Administration and Congress are serious about curbing inflation, they will pursue the policies suggested herein or, I fear, we can kiss affordable housing for the middle class good-bye by the end of this decade.

## APPENDIX A: EVALUATION OF HUD'S 1980 CONDOMINIUM CONVERSION STUDY

Source: Working Papers, September/October 1980, pp. 53-58

## HUD Blesses Condomania

by Peter Dreier

**The Conversion of Rental Housing to Condominiums and Cooperatives. A National Study of Scope, Causes and Impacts.**

Office of Policy Development and Research of the Department of Housing and Urban Development, 1980. 3 volumes, free.

**T**he fight over "condo conversion" is barely two years old. About 366,000 rental units have been converted to condominiums since 1970, 71 percent since 1977.\* Landlords, claiming that rent control and declining profit margins are making apartment ownership undesirable, are selling their buildings to condominium developers who promote condos as a new homeownership opportunity. Tenants, claiming that condo conversion artificially forces up housing costs and displaces many tenants who cannot afford (or do not want) to purchase their apartments, want protection from what they view as pure-and-simple speculation, putting profits before people.

\* Of these, about 18,000 have actually been converted to cooperatives, almost all of them in New York City.

In the middle are government officials, caught by these conflicting demands. Although most municipalities have not responded, a growing number have adopted some form of tenant protection. These vary from an outright moratorium on conversions, to a requirement that tenants receive a year or two advance notice before eviction, to requiring that a percentage of tenants approve the conversion, to making the right to convert contingent on the local rental vacancy rate. Although a number of Congressmen and Senators have proposed legislation on the subject, nothing has yet been passed. Instead, Congress asked the Department of Housing and Urban Development (HUD) to do a study to determine the nationwide scope, causes, and consequences of condo conversion.

The three-volume report, issued in June, received substantial press coverage.\*\* Typical headlines

\*\* In fact, only a short summary was issued. The three volumes (over 1,000 pages) were not available for distribution until August. Newspaper accounts were based on the summary. This review is based on the three-volume set, of which the second and third volumes are appendices including additional tables, questionnaires and methodology, a list of local and state ordinances, and a bibliography.

were: "Conversions to Condominiums and Co-ops Aren't a Significant Problem, HUD Finds" (*Wall Street Journal*); "Condos Have Little Effect on Rentals, HUD Says" (*Boston Globe*).

The widely distributed summary and press release seemed to confirm these headlines. The stories emphasized that the 366,000 converted units represent barely 1.3 percent of the nation's rental housing stock, quoting HUD Secretary Moon Landreu's conclusion that this is a "very tiny percentage." The report also calculated that conversions reduced the availability of rental units by only 18,000 units because many former renters vacate rental units to buy condos, which both reduces rental demand and makes rentals available. Then, too, many converted units remain on the rental market with new owners. The press also reported the surprising discoveries that displacement is only a small problem; that few of those who are displaced are poor, elderly, or minorities; and that most of those who either purchased condos or moved out of converted units were "satisfied" with their new housing.

In sum, another federal government study reports that, with some minor inconveniences, all is well. It will no doubt be extremely useful to real estate industry lobbyists in their arguments against further restrictions on condo conversion. With them, the report must be selling like—well—condos.

A careful reading of the HUD study suggests a very different picture. The report has some striking problems: sloppy methods, misleading interpretations and assumptions, and some data that is simply wrong. Like many such studies, moreover, it focuses on the wrong problem—in this case, the "health" of the housing market rather than the severity of the nation's housing needs. Buried within its thousand-odd pages is a considerably less upbeat story.

To begin with the methods: the study's figure on the nationwide

**The study barely mentions the government's complicity in the wave of condo conversions.**

scope of conversion—366,000 units, or 1.3 percent of the nation's rental housing—was derived by talking to local planners, real estate industry people, and others in thirty-seven standard metropolitan statistical areas (SMSAs). In Chicago, for example, HUD appears to have relied on a report by a private real estate consulting firm, Shlaes & Co., for its figure of 35,869. The Shlaes report was paid for by Chicago area real estate firms, including the nation's largest condo converter, American Invesco Corporation. A high-level Chicago planner said the report "intentionally minimized" the number because it wanted to resist a proposed condo "moratorium." The actual figure at the end of 1979, he estimated, was over 50,000, a figure he gave HUD researchers during their Chicago interviews. If this kind of research is characteristic at HUD, the overall figure itself could be an underestimate.

Both public housing (which cannot be converted) and federally subsidized apartments (about which there is controversy in this matter) are included in the figure for total rental housing. If one or both were excluded, the overall percentage would be higher.\*

The major problem here is the aggregate emphasis: by focusing on national figures, the study masks (or at least minimizes) the scope and effects of condo conversion in local areas. As the study points out, 76

\* In addition, the 1.31 percent figure is based on all occupied rental units, including single-family homes and units in buildings with less than five units. If conversions were calculated as a percentage of units in rental buildings of five or more units—where conversions are most likely—then 3.56 percent of units have been converted.

percent of all conversions have occurred in the thirty-seven largest SMSAs and 59 percent are in just twelve of those areas. Even if we accept the study's figures, in many individual cities the rates are considerably higher—5.44 percent in Chicago, 8.79 percent in Denver, 7.27 percent in Houston, 6.86 percent in Washington, D.C., and so on. The rates are even higher in many suburbs where, HUD found, half of all conversions have taken place. Housing markets are local, and national figures do not do justice to communities afflicted with condo fever. And even where local conversion rates seem low, the numbers mask what is happening in particular (and once stable) neighborhoods, where a third or more of the rental stock has been converted.

Even small numbers, however, can have a huge impact. The rate of condo conversions must be viewed alongside local vacancy rates. Nationwide, the rental vacancy rate is the lowest in history—less than 5 percent—but in most cities it is even much lower. A reduction in the rental housing stock of only 1 percent can have a tremendous effect—especially since the number of households is growing, thanks to the increase in divorce and single-member households, and the greater number of elderly people in the population.

This is particularly a problem when the construction of rental housing is almost at a standstill and the number of buildings lost through abandonment, demolition, and "arson-for-profit" is reaching epidemic proportions. Indeed, a November 1979 Government Accounting Office report labeled the decline in the nation's rental housing a "crisis."

But the numbers themselves don't tell the whole story. Even if only 18,000 rental units have been lost, HUD's figures say nothing about higher rents. Condominium investors charge much higher rents—indeed, the purchase cost requires them to do so. Also, in a tight housing market, any reduction in the number of rental units increases rents in the remaining apartments (except, of course, where there is rent control).

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Although most conversions occur in more affluent neighborhoods, low and moderate income people still must contend with the effects. Those who are displaced increase the competition for any moderate rental housing and thus drive up the overall average rental.

And what about all those former renters who are now condo owners? HUD Secretary Landrieu recently said that the "driving force" behind condo conversion is the "strong and growing demand for homeownership." But the HUD study found that half of all the tenants who purchased their apartments as condos preferred to rent. They purchase condos because they are afraid that in an increasingly tight housing market, there will be no place else to move. The wave of condo conversions creates a fear psychology, which prompts people to act hastily.

The "satisfaction" HUD found among condo purchasers must be seen in this light. Who, after all, wants to declare dissatisfaction with the biggest purchase of his or her life? Particular complaints will come later—when condo owners are faced with major (and unexpected) repairs, increasing property taxes and utility costs, and other long term issues. For the former tenants, "satisfaction" is a function of the choices that were available. In employment surveys, most employees say they are satisfied with their jobs because they think that given their individual circumstances and the job market, it's the best they can do. But they almost uniformly agree that they wouldn't want their children to have the same job! Residential satisfaction follows the same logic. Even if they are paying more (as the study finds they are), displaced tenants may simply be relieved to have found anything that isn't falling in on them.

The study's conclusion about the impact of conversions on displaced tenants, tenant purchasers, and outside purchasers is based on a telephone survey of 861 households in 290 converted buildings in the twelve SMSAs with the hottest condo markets. The sample size is probably too small, particularly since in each urban area the

number of people interviewed (94 in New York, 57 in Boston, 22 in Miami, 38 in Los Angeles, 270 in Chicago, 32 in Minneapolis, and so on) could not possibly catch enough households to be representative. Still, the findings are of interest, and tend to contradict Secretary Landrieu.

According to the survey, 58 percent of the tenants in converted buildings moved out (and another 8 percent will probably move soon); the remaining 42 percent continued to live in the buildings as either owners (22 percent) or renters (20 percent). Even though the 58 percent figure is considerably lower than all recent local studies done by community groups, planners, and real estate groups have found, it suggests a considerable degree of displacement. HUD sought to locate those 58 percent and to find out where they had moved and the condition and cost of their new homes. The search probably lost track of a disproportionate number of low income people, as well as those who had moved outside the area, but the findings are nevertheless instructive. Half had some problems finding new housing. Most had to pay more and lived in less desirable conditions. Dramatically, the elderly, racial minorities, and the poor had the most difficulty, experienced the biggest increase in costs, and were most likely to be dissatisfied with the new housing conditions.

Most of those who moved said they did so because they could not afford to purchase an expensive condo. Indeed, many of those who did buy will face considerable economic hardship as a result: HUD found they increased their monthly housing budget by 36 percent. (The increase for outside purchasers is 62 percent.) Most banks have a rule of thumb that says a property is affordable if its cost is roughly equal to two-and-a-half times the buyer's annual income. Using this formula, HUD concluded that 42 percent of the former residents could not afford to purchase their units as condos (68 percent for those whose apartments were selling for \$70,000 or more).

These figures take into account

only the purchase price of the condo, ignoring the expenses of property taxes, utilities, and monthly assessments for maintenance. HUD also based its calculations on a 10 percent mortgage interest rate, although interest rates are currently running much higher. And, of course, the two-and-a-half times formula may be suitable for an affluent professional, but probably not for the poor or anyone living on a fixed income.

On the social side, the study minimizes the gentrification effect of condo conversion—or as HUD and the real estate industry call it, "revitalization." But in fact, most condo owners are white, middle class professionals, without children. The study does say that the new residents in converted units are considerably better off financially than previous residents, but further on reports that condo conversion does little to change the social composition of neighborhoods. Nowhere in this apparent contradiction resolved.

Indeed, the study is fraught with such sloppiness. Petty on the surface, they suggest a carelessness with data. Chicago's South Shore, a neighborhood that is at least 90 percent black, is called an "inter-racial" neighborhood. The study points out that rents have risen less than the Consumer Price Index—thus suggesting that landlords are facing tough times—without acknowledging that the major portion of a landlord's expenses (from one-third to one-half) is *fixed*—the mortgage payments.\* In its summary of various local tenant protection ordinances, the study several times defines the "right of first refusal" as giving existing tenants the unqualified, exclusive option to purchase their units. In fact, the "right-of-first-refusal" simply requires that developers offer the units to tenants *first* and give them a specific period of time to decide whether or not to buy. In its listing

of local ordinances, the study omits several, and misrepresents the provisions of others. It suggests that condo conversion occurs where vacancy rates are low, and five pages later says that "rental vacancy rates do not appear to be associated with concentrations of conversion activity." Other evidence of carelessness dots the report, but perhaps this is inevitable in a massive study done under considerable time pressure.

Several findings contradict the real estate industry's favorite rhetoric on condo conversion. If conversion takes place primarily in affluent areas where the buildings are extremely profitable, it is palpably *not* the result of a distressed real estate market. Second, in most condo conversions repairs to the buildings are little more than superficial, cosmetic ones. Condo conversion, therefore, is not a realistic way of improving existing housing stock. The study also concluded that the increase in property taxes is small, and does little to increase a community's overall property tax base.

Finally, the report specifically notes that rent control is not a significant contributing factor to condo conversion. Cities without rent control—Chicago, Denver, and others—are experiencing conversion at the same, or a greater, rate than those few cities that have some form of rent control.

While these findings support the idea that it would not be economically foolish to keep a portion of the nation's housing as rentals, the study is still far off what ought to be HUD's mark. Nowhere in the three volumes do we find the phrases "housing need," or "affordable housing," much less any

reference to HUD's particular mandate to address these concerns. Instead, the focus of the study is the impact of condo conversion on the health of the private rental housing market—on whether "supply" matches "demand." But HUD is supposed to be responsible for the *overall situation*—for developing policies that increase the overall supply of affordable housing. Instead, the report assumes that neither local nor federal government will act to restrict future condo conversions, and that only 20 percent of all rental housing is conducive to conversion. But conversion is possible in all kinds of buildings in all kinds of neighborhoods, and HUD's assumptions point to no policy at all. In fact, the focus on *national* figures and trends both minimizes the impact of condo conversion and suggests that the problem does not call for national action.

More fundamentally, the study barely mentions the many ways that federal government already contributes to the growing wave of condo conversion and the increase in housing costs. For example, the federal income tax code—which allows homeowners to deduct mortgage interest and property tax payments, but does not allow renters any tax credit on shelter costs—encourages people to become homeowners and thus stimulates the "demand" for condo ownership.

Federal tax laws also encourage apartment owners to sell their buildings when their various tax shelters and depreciation advantages are used up. Rapid turnover of apartment buildings entails costs (since each new owner has to refinance at higher interest rates), encourages speculation, and, eventually, leads to abandonment after a building is sufficiently "milked." The tax laws further encourage landlords to sell their buildings to professional condo developers, rather than directly to the tenants themselves. Profits on the sale of an entire building are taxed at capital gains rates; profits on the sale of individual units are taxed as ordinary income, at much higher rates. But the more middlemen—the developer, the title-search firm, the

**Nowhere is the study do we find the phrases "housing need" or "affordable housing."**

\* Even a housing economist as conservative as Rutgers' George Sternlieb acknowledges that using the CPI is misleading in evaluating whether rent increases have "lagged" behind a landlord's costs. See Sternlieb's new book, *America's Housing: Prospects and Problems* (Rutgers University Press, 1980).

lawyers, the mortgage lenders—involved in each transaction, the higher the price of the condo unit.

Worst of all, various federal programs to “revitalize” or “upgrade” urban areas (particularly the Urban Development Action Grant and the Community Development Block Grant) often result in housing speculation, rising costs, and the involuntary displacement of low and moderate income residents. These programs often underwrite commercial projects, such as a proposed \$19.8 million UDAG grant in Boston to anchor the extensive Copley Place redevelopment project—a luxury Neiman-Marcus department store, a Marriott hotel complex, and high rent apartments. This project would displace several thousand residents, escalate rents, and encourage condo conversion in the surrounding neighborhoods.

Condo conversion is not, as one high level planner labeled it, “a natural process of the private housing market.” It is a product of government action and inaction. The federal government has a responsibility to slow down or reverse policies that reduce affordable housing for low and moderate income people and to promote policies that make housing more affordable.

The issue has been posed as one of “rental” vs. “homeownership,” but this is misleading. The real issue is whether housing is *affordable* and *secure*. The federal government could go a long way in this direction by encouraging the conversion of rental housing to low equity cooperatives under tenant control. Such a policy removes the various middlemen between landlord and purchaser, and reduces inflationary costs by taking housing out of the speculative market. And it would give tenants more security and a larger stake in their homes. Tenants have successfully initiated such programs in New York, Washington, D.C., and elsewhere.

What is called for is direct federal intervention. This would require technical assistance, interim financing, and long term financing. Grant monies could be

used for this, rather than for commercial “revitalization” that pushes out low and moderate income residents. Grant money could also be applied to the rehabilitation of abandoned units as well. (See Robert Schur, “Growing Lemons in the Bronx,” *Working Papers* July/August 1980.)

Condo conversion is only part of a much larger trend—the escalating costs of a basic necessity, and the declining number of housing units available to low and moder-

ate income Americans. The federal government plays an active role in this process, and must accept the responsibility for dealing with it. ■

*For further information:*  
*The Anti-Displacement Project of the National Association of Neighborhoods, 1801 Q Street, NW, Washington, D.C. 20009.*  
*Two special issues of Shelterforce on condo conversion: March and June 1980. Shelterforce, 380 Main Street, East Orange, NJ 07018.*

Mr. ROSENTHAL. Our next witness is Mr. Louis Masotti, Center for Urban Affairs and Policy Research, Northwestern University. Mr. Masotti.

**STATEMENT OF LOUIS H. MASOTTI, CENTER FOR URBAN AFFAIRS AND POLICY RESEARCH, NORTHWESTERN UNIVERSITY**

Mr. MASOTTI. Thank you, Mr. Chairman.

Mr. ROSENTHAL. Without objection, we will include your entire statement in the record, and if you can summarize it or point up the highlights, I think it would be useful.

Mr. MASOTTI. I would be happy to do that, Mr. Chairman, with the possible qualification that since I seem to be the only one testifying today that represents a particular point of view, I would like to take my full 15 minutes if I may.

Mr. ROSENTHAL. That is all right with me.

Mr. MASOTTI. I will try to be as cogent as possible.

Mr. Chairman, members of the committee, my name is Louis Masotti. I am a professor of political science, urban affairs, and policy research and director of the urban housing research project at the Center for Urban Affairs and Policy Research at Northwestern University. For 9 years, until September 1980, I served as director of the Center for Urban Affairs and Policy Research. From 1975 to 1980 I was editor in chief of *Urban Affairs Quarterly*, an academic journal devoted to the analysis of urban phenomena.

Copies of my curriculum vitae are available to the members of the committee detailing my academic credentials and listing my publications that, I think qualify me to testify today.

Under my direction the urban research housing project has recently published three major reports relating to condominiums and they are listed in the testimony. It includes a survey of condominium owners which I think may address, Mr. Neal, some of the points that you raised a few moments ago. I will touch on them briefly in my testimony.

In addition to my academic role, I have for many years served as an urban affairs consultant to numerous government agencies and elected public officials, foundations, the media, private sector corporations, and neighborhood organizations. I have also been retained as an urban adviser and consultant by a variety of institutions involved in the real estate industry; among them are the Seraco Group of Sears, Roebuck, the First National Bank of Chicago's Neighborhood Development Corp., and American Invsco, where I served as a consultant for their new development corporation, not their condominium conversion process. I am currently engaged in a major academic project focused on the dynamics of urban development in five major American cities.

I appear here at your request, Mr. Chairman, because I believe that there is no more significant domestic issue than urban revitalization. I think housing choice is critical to that dynamic, and that when history of urban America in the seventies and eighties is written that the condominium concept—the concept of joint ownership—will be identified as one of the two or three most significant factors in meeting America's changing housing needs and in revitalizing its inner cities.



Major shifts in the dynamics of the Nation's demographics and dramatic economic fluctuations have had significant impact on housing and lifestyle options and preferences.

Simultaneously, the condominium emerged as an alternative form of homeownership that met the housing needs of a growing segment of the population. The condominium concept also made it economically viable to rehabilitate, redevelop, and reuse large numbers of deteriorating urban buildings.

The term condominium has engendered a great deal of controversy over the past few years and, indeed, over the past few days. It is, however, a controversy that often seems to be focused on the wrong issues.

Rather than exploring the options that the condominium concept offers individuals, communities, and society in a period of rapidly changing social structure, lifestyle, and economics, the controversy dwells almost exclusively on those who may be seriously inconvenienced or displaced involuntarily by the conversion of rental building to condominium residences.

This is, in fact, a real consequence of some conversions for some people, and the flood of litigation and legislative controls that have ensued is testimony to the efforts being made to protect tenants and consumers from incidents of unfair, inequitable, and unscrupulous treatment in the conversion process.

The intensity of such controversy too often causes us to lose sight of the opportunities that the condominium concept offers to cope with the housing needs and enhance urban redevelopment opportunities of the 1980's.

A recent analysis of the housing industry for the 1980's suggests that inflation, high interest rates, soaring land and energy costs, among other factors, have priced an increasing number of families, and importantly a growing number of adult singles, out of the housing market.

Although some abatement is predicted during the decade, it is unlikely to be great enough to put the cost of a new house within reach of the average American household.

If we anticipate the 1980 census and extrapolate from it for the next 10 to 20 years, it becomes quite clear that the predictable fact of high housing costs will be confronted by the irresistible force of a household population explosion and a derivative demand for housing.

We can expect an increase in the number of households over the decade of some 17 million, which will mean that by 1990 we will have experienced a 50-percent increase in household formation since 1970. The numbers are irrefutable.

During the decade 42 million people—the 1950's baby boom—will turn 30 years old compared to 32 million in the 1970's, and the over 65 population will increase by 5 million, most of whom will continue to live in separate households or at least desire to.

The 96 percent increase in the divorce rate during the 1970's shows no sign of abating and will continue creating still more households in the 1980's.

Further, there is a significant increase in the number of young adults who choose to live alone, thus adding to the number of

households and increasing the burden on an already overtaxed housing stock.

Homeownership is a growing American tradition. Whereas only 40 percent owned their own homes in 1940, more than 65 percent now do.

The vast majority of the expected 17 million new households predicted for the 1980's will attempt to buy homes even though they have become increasingly aware that it will not be the traditional single-family detached dwelling on a plot of land.

Not only does recent tradition suggest the urge for homeownership, but public policy encourages it through Federal income tax laws that, in a period of growing inflation, transfer homeownership from mere shelter to the average household's most significant investment and hedge against inflation. Indeed, it may be difficult, if not impossible, for anyone to afford to rent during the 1980's and the 1990's.

Further, changing lifestyles—especially the postponement of children and the related probability of two-income households—combined with growing tolerance of consumer patterns that permit a larger proportion of disposable income to be spent on housing, have made it possible for an increasing number of households to eschew the diminishing rental market.

The so-called American dream of an owner-occupied single-family detached house has been disrupted, if not destroyed, for about 85 percent or more of those entering the housing market by an inflationary spiral that has driven average new single-family house prices beyond \$80,000. I understand in the Washington area it is beyond \$100,000 with the price of used homes close behind.

Respected analysts predict 1990 average single-family home prices of almost \$160,000—an increase over current levels of about 100 percent.

These increases are likely to be greater than the predicted growth in personal income during the decade by about 20 to 25 percent, thereby substantially increasing the financial burden of homeownership. All the evidence suggests, however, that most households are willing to dedicate a larger portion of their budgets—35 to 40 percent as opposed to the traditional 25 percent—in order to own their own residences.

The perceived need of individuals and families to take advantage of the tax benefits afforded to owners versus renters, combined with the growing economic disadvantages of rental building ownership, created the market conditions in the 1970's necessary and sufficient for the conversion of rental buildings to condominium ownership and in some areas, notably New York City, cooperatives.

At a time when the demand for homeownership is growing and the cost of traditional single-family detached homes has outpaced income, the concept of shared building ownership—condominiums—is becoming culturally acceptable to a broader spectrum of the population and economically attractive as a combination of shelter and inflationary hedge.

The upsurge of conversion in the last few years makes the point graphically, and your chart does more so, although, I think your 1985 projections are somewhat exaggerated. In fact, we have expe-

rienced a decline in 1980 substantially. For example in Chicago there were 17,000 conversions in 1979, only 3,000 in 1980.

Mr. ROSENTHAL. Why is Chicago the condo capitol of the world?

Mr. MASOTTI. I think there are probably several reasons. One is that there was a very attractive housing stock on the lakefront which attracted most of the attention originally and made it attractive both to the sellers and the buyers and certainly to the subsequent owners. That was one reason.

That is all concentrated in about three so-called townships of the city along the lakefront. It is now moving to the west to smaller units and lower priced condominiums.

Mr. ROSENTHAL. Chicago has produced the classic converter. I am trying to think of a word to describe it. They produced the converter that went around the country. What was there inherently in Chicago that produced this person?

Mr. MASOTTI. It is a wonderful city, Mr. Chairman. What could I tell you? Why did New York go cooperative? I think the answers are probably somewhere in the framework of both tradition and the housing market as they have developed. It was attractive in Chicago. Condominiums didn't develop in Chicago until, I think the first one was 1962. There were virtually none after that until the early seventies. It became a function, I think, of price, that people found their rents were rising rapidly and this was a way for people who wanted to own, to own without having the promise of escalating rents.

Mr. ROSENTHAL. There are no rent controls in Chicago?

Mr. MASOTTI. No, sir, and I hope there never will be.

Mr. ROSENTHAL. Rent controls played no role in this situation?

Mr. MASOTTI. No; it didn't.

Mr. ROSENTHAL. I still don't understand your answer. It is probably because I have not framed the question properly. In other words, Dallas and southern California produced the aerospace industry and other parts of the country produce other unique industries. There had to be something unique or special about Chicago to produce this converter group of people. New York didn't produce them and yet New York is a much larger real estate market. What was intrinsically unique to Chicago that produced Sheridan and American Invesco and the rest of the crowd?

Mr. MASOTTI. Well, I think, in addition to the housing stock, perhaps it was the absence of any restriction. Although there have been some imposed at this point, they are still relatively mild to the kinds of restrictions in other parts of the country including New York City. We have no 35-percent rule.

Mr. ROSENTHAL. Has the converter industry made a great deal of money if you put them all together? Have they made in the past 10 years \$25 to \$50 billion?

Mr. MASOTTI. I have no idea. I am not an economist, and I haven't traced the profits of various corporations. I am an analyst of urban phenomena, and I think the condominium phenomena is one that warrants considerable—

Mr. ROSENTHAL. I did not want to interrupt. Do you think the average American family can afford to go to 35 to 40 percent for housing with rising food prices and rising petroleum prices, heating oil, and that sort of thing?

Mr. MASOTTI. I think they have already approached 30 percent. In fact, I think the average now is about 32 percent.

Mr. ROSENTHAL. They are bleeding pretty badly.

Mr. MASOTTI. It hurts, but it isn't because of condominium conversion. In fact, I think in many cases condominium conversions have provided an opportunity for a whole new group of people—that 17 million emerging household—that can't possibly afford to rent for the next 20 years because of the escalating rental costs and the tax laws as they now exist.

Mr. ROSENTHAL. I don't see how they can afford to go condominium. You take the Promenade. A guy was paying \$600 a month and now his monthly costs are going to be \$1,400 a month. How can anybody afford that?

Mr. MASOTTI. He may not be able to buy in that particular building, although there is ample evidence that a number of buildings have high retention rates. In the building alluded to earlier this morning, the Sandburg Village conversion, there was a retention rate of about 90 percent. That is 90 percent of the people who lived in those buildings, those 2,700 units, stayed.

Mr. ROSENTHAL. In the testimony we had yesterday about the one in Pennsylvania, it was Beaver Hill, the rent went from \$500 a month to \$1,200 a month. How can people—

Mr. MASOTTI. Those are cash flow figures. That is correct, approximately correct.

Mr. ROSENTHAL. I don't know how anybody can afford it. What you have done is replace existing tenants with a new character of tenancy, a young married couple or two unmarried people living together. In many of these situations, particularly in New York, there are two or more wage earners, usually about 30 years old. The HUD study indicated usually the majority of them were women for reasons for which I could not understand.

Mr. MASOTTI. Well, I think that is obvious.

Mr. ROSENTHAL. What is the reason for that?

Mr. MASOTTI. For the women?

Mr. ROSENTHAL. Yes.

Mr. MASOTTI. I think we have an ever-expanding group of professional, single women who want the advantages of homeownership that they cannot get from single-family homes because they don't want to own a single-family home.

Mr. ROSENTHAL. It is because they want to live on 52d Street in Manhattan. They don't want to live out in Levittown, and I don't blame them.

Mr. MASOTTI. I don't blame them either. I was raised 5 miles from there, and I don't want to live there either.

Mr. ROSENTHAL. You know there are only a certain number of blocks in Manhattan and it is the same thing in Chicago. In New York City you stand on the street and you watch the prices go up. As we are sitting here, everything just went up 10 percent in the last 2 hours.

Mr. MASOTTI. Congressman, I couldn't agree with you more, but I don't think you can blame it all on condominium conversion.

Mr. ROSENTHAL. Who would you want to blame it on?

Mr. MASOTTI. I think it is part of a general inflationary condition in the United States, and the best-paid economists in the U.S.

Government haven't been able to figure that out. I am not an economist so I won't even try. However, I think that condominiums have provided a potential hedge against some of that inflation for an increasing proportion of the population.

Mr. ROSENTHAL. The only person who can take advantage of this thing is somebody who has an income sufficiently high that the interest deduction is important to them; right?

Mr. MASOTTI. No, sir. I don't think that is the only factor. I think tax deduction is one of the factors. I think that appreciation—

Mr. ROSENTHAL. In New York it is like the Klondike. You could go to Paradise Island for a weekend, too, or to Las Vegas. In New York in the one building Invsco did at 56th Street, I think those apartments have doubled in the year since then. We really have happy owners there.

Mr. MASOTTI. They resisted, I understand.

Mr. ROSENTHAL. No, they didn't resist. They stood in line. They got up early in the morning because they know that in Manhattan those prices will double by next week. It really is the Klondike.

Mr. MASOTTI. I don't think that situation prevails throughout the United States.

Mr. ROSENTHAL. It doesn't prevail. The point I wish you would address yourself to, and I know you have thought about this, is of all the billions of dollars that have gone into conversion and the use of scarce mortgage money, not one new unit of housing has been constructed.

Mr. MASOTTI. I disagree.

Mr. ROSENTHAL. Has there been a unit constructed?

Mr. MASOTTI. Yes, sir.

Mr. ROSENTHAL. Where?

Mr. MASOTTI. It is because of condominium conversion, by the way.

Mr. ROSENTHAL. This will be interesting. Tell us.

Mr. MASOTTI. I can cite at least 12 buildings in Chicago that have been converted from nonresidential use to residential use because they have become—

Mr. ROSENTHAL. Oh, the loft buildings.

Mr. MASOTTI. No. No, sir. I can name you two churches, one seminary, and the Furniture Mart which has 3 million square feet of space and is going to have 500 units of condominium. Those are not housing units now. They have been converted to housing, and we expect at least 2,000 to 3,000 more units to be brought on the market in the next few years because of the condominium concept. That is the ability to buy the building and then sell it in pieces, in effect, for joint ownership.

That is a process that is emerging in the absence of housing starts, or I should say the decline in housing starts, from an average of about 2 million in 1978 down to about 1.2 million expected this year.

Mr. ROSENTHAL. So that I understand you clearly, the only so-called new construction or new residential units has been the physical conversion of preexisting nonresidential units such as warehouses or churches?

Mr. MASOTTI. No, sir. We have also had approximately 12,000 units of rental housing added to Chicago in the last 10 years.



Almost all of it was by one developer. It is in large part because they fully expect that those buildings which will serve as rental buildings for a period of 7 to 8 years, indeed as tax shelter for investors, will then be converted to condominiums.

There would be no rental housing. We would not have 12,000 units of rental housing on the market at what I would consider to be below market rents if it were not for the possibility of conversion to condominiums and 8 years down the road it would provide homeownership opportunities for a different group of people.

Mr. ROSENTHAL. We will include your statement in the record. My last question is, has this condominium phenomenon been inflationary in character?

Mr. MASOTTI. I think it is a function of the inflation in the country. I would not argue that it has been inflationary. There is a report from the Council on Price Stability from last September which indicates that they did not think it was inflationary, but rather the prices of condominiums reflect the true market value of those houses and that things like rent control have deflated the real market value of housing.

If you are going to accept my statement and I am not going to get a chance to proceed with the rest of it, I would like to make—

Mr. ROSENTHAL. It is so much more interesting this way.

Mr. MASOTTI. I agree, sir.

Mr. ROSENTHAL. It is boring to listen to you read the statement.

Mr. MASOTTI. May I make a statement about what I was going to say, because I hope that will encourage further discussion between us? I, too, find that more interesting.

Mr. ROSENTHAL. I want to encourage a discussion between you and my colleagues.

Mr. MASOTTI. I would be happy to do that as well, sir.

Let me say that what I was trying to get at—and I got about halfway through—is the point that the concept of joint ownership has already demonstrated some considerable potential for providing homeownership opportunities for an emergent class of potential owners that we have not experienced in our society before. That is this large group of single Americans, either previously married and now divorced or widowed or who will not marry or will postpone marriage for some considerable time into the future. This includes a large proportion of single professional women. Those people, I think, need to have housing options that include ownership so that they, too, can emerge through this inflationary period.

Mr. ROSENTHAL. I tend to agree with you. I think condominium ownership is a very clever idea with the right characteristics. I happen to think in the right terrain it is a useful thing.

How do you feel about the fact we have this middleman converter coming in and adding on a significant layer of profit? Take the Promenade. The building was worth \$25 million. The owner sold it to Invsco for about \$50 million. Invsco's selling price is \$100 a foot so that it comes out to be \$100 million. Is that a socially useful process?

Mr. MASOTTI. I think the developer, the converter in this case, and developers generally take considerable risks. I have just spent the last 8 months interviewing developers of cities, of building, and

so forth, including New York, and I am most impressed with these risks.

Maybe one could argue that a developer that has had a number of conversions under one's belt does not take as great a risk any more, although in this money market I think it is a risk to invest in almost anything at this point, particularly new buildings.

That does seem to be a process which entails large numbers transferring hands. The original seller makes a substantial profit. The converter seems to make a substantial profit, although taking more risk certainly than the original owner, and then the first buyers and second buyers seem to profit from their purchase by providing both homeownership and investment.

I think I am more concerned about things I have heard here in the last 2 days concerning speculators than I am about any of the other actors that I have heard identified.

Mr. ROSENTHAL. How do you feel about the people who are displaced by this new character of homeownership? A single woman sociologically has displaced the widow.

Mr. MASOTTI. I don't think anyone could fail to have been touched by what we heard yesterday. I did sit through that testimony yesterday. I think that we do not solve the problem that those people have by, in effect, not solving the problems that some other people have. I think that the answer, sir, if I may suggest—

Mr. ROSENTHAL. How do you balance the equities of these two groups? One group is reasonably able to deal for themselves. The other group—this man who sat in that seat made a tremendous impression on me—

Mr. MASOTTI. He made an impression on me too.

Mr. ROSENTHAL. He was injured at Guadalcanal, moved to the Promenade so he could be close to Bethesda Hospital. He couldn't go from \$500 a month to \$1,400 a month.

Mr. MASOTTI. There is no question in my mind that the developer has both a social and a moral obligation to take care of those people.

Mr. ROSENTHAL. Have you ever met American Invesco?

Mr. MASOTTI. Yes, sir, I have. I reported that I have consulted for them.

Mr. ROSENTHAL. Have you done a significant amount?

Mr. MASOTTI. Not on condominiums but on new project development. This is the South Loop and Denver.

Mr. ROSENTHAL. Has there been a significant relationship there?

Mr. MASOTTI. It has been for a period of about 3 years. Yes, sir.

Mr. ROSENTHAL. How do we protect that man and the retired woman?

Mr. MASOTTI. I think that the developers have a responsibility. One of the recommendations that I have made to developers that I have consulted for is that they have what are known as "set-asides" for the elderly and the handicapped and, in some cases, for young renters who have not had time to establish sufficient capital to give them a period of time in which to try to do so.

Mr. ROSENTHAL. Have any of your client developers paid any attention?

Mr. MASOTTI. Yes, sir, they have.

Mr. ROSENTHAL. Who?



Mr. MASOTTI. First Condominium Corp. in Chicago.

Mr. ROSENTHAL. Invsco hasn't, have they?

Mr. MASOTTI. I don't know what they have done in that area. That is not an area that I have worked with.

Mr. ROSENTHAL. Just out of interest as a concerned citizen, did you ask them?

Mr. MASOTTI. That is not the work that I am doing for them, Mr. Rosenthal. I am dealing with them on new development, new building, not on condominium conversion.

The First Condominium Development Corp. had a 15-percent set-aside in this Sandburg Village project, and I think that explains to a large extent why they had a 90-percent retention rate in that building.

Mr. ROSENTHAL. Who were the principals in that?

Mr. MASOTTI. Harold Louis Miller was, I think, the president. I believe he is testifying tomorrow.

Mr. ROSENTHAL. Miller?

Mr. MASOTTI. I believe so; yes, sir. He is on the original list. Is that right, Mr. Jacobs?

Mr. ROSENTHAL. If he is on the list, I am sure he will testify. Did you want to say something else?

Mr. MASOTTI. Yes, I do. I would like to address the last issue you raised which concerns the kinds of people that you heard yesterday.

There are ways that may not involve Federal legislation. I do not feel very strongly about increasing the role of the Federal Government in dealing with these problems. I think even Mr. Beckman yesterday, who seemed to be in favor of Federal legislation, was unable to identify how in response to questions from you, Mr. Daub. Indeed, I think there have been examples, and Mr. Lauber referred to them in some of his written work and in his testimony today, that local communities have come up with some rather ingenious ways of regulating the inequities and the inequalities of condominium conversion.

Frankly, I would urge this committee to be more concerned about the overall effects rather than the detailed regulation.

I would certainly urge you not to move toward a moratorium because I think there is inevitably going to be conversion and there should be in order to provide housing choices for a large segment of our population that would otherwise be denied that opportunity. However, I think that all you are going to do is increase the costs for those who potentially do buy without protecting anybody.

I would like to see creative local legislation and State legislation that would provide opportunities for low- and moderate-income people to also have the opportunity to buy into condominiums, and there are ways that can be done. I have not heard them expressed here in the last 2 days but I am sure the committee staff has documents which identify some of those things.

For one thing, it seems to me that it is possible for local governments to participate in shared equity mortgages with low-income owners. The State of California has already done some of that.

Mr. ROSENTHAL. Out of curiosity, do you live in a condominium?

Mr. MASOTTI. I certainly do.

Mr. ROSENTHAL. Which one?

Mr. MASOTTI. 200 East Delaware.

Mr. ROSENTHAL. Who converted that?

Mr. MASOTTI. That was built originally as a condominium.

Mr. ROSENTHAL. You got in on an original shot?

Mr. MASOTTI. No, sir, I didn't. I bought it from a subsequent owner.

Mr. ROSENTHAL. But not from a converter?

Mr. MASOTTI. I bought it from the owner of the unit, not from a converter, no.

Mr. ROSENTHAL. Is that an Invsco—

Mr. MASOTTI. By the way, I understand that Mr. Lauber also lives in a condominium, which I found interesting.

Mr. ROSENTHAL. We are not going to get into a contest of who lives where.

Mr. MASOTTI. You asked me, sir, and I responded. Do you live in a cooperative, Mr. Rosenthal?

Mr. ROSENTHAL. You volunteered information on Lauber.

Mr. MASOTTI. Yes, sir, I did.

Mr. ROSENTHAL. Why would you do that?

Mr. MASOTTI. I volunteer information on him?

Mr. ROSENTHAL. Is this an Invsco building?

Mr. MASOTTI. No, sir, it isn't.

Mr. ROSENTHAL. In other words, you bought it from an existing owner.

Mr. MASOTTI. The building was developed by Baird and Warner of Chicago and was designed by Black, Black, and Moutoussamy. It was originally built as a condominium in 1974. There was no market, and it went as rental. It was subsequently changed back to condominium, and I bought my unit there in 1978. I sold it in 1979 and moved next door in the same building, different apartment.

I did it primarily because my research indicated this was a good thing for somebody like me. It allowed me to ride the inflationary edge that my Government has not yet been able to stem.

Mr. ROSENTHAL. I wonder if we could suspend for a couple of minutes so Congressman Jeffords could testify? Just stay there.

Mr. MASOTTI. Can I yield? I have always wanted to yield the floor, Mr. Chairman.

Mr. ROSENTHAL. Mr. Jeffords, we are pleased that you had an opportunity from your busy schedule to tell us of your concern and interest in this area, and we are anxious to hear from you.

#### STATEMENT OF HON. JAMES M. JEFFORDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. JEFFORDS. Thank you, Mr. Chairman. I appear before you as vice president of Capitol Manor Tenants Association as well as a Member of Congress. I would like to relate to you some of the problems I have seen relating to condominium conversions.

I would also point out that as a State senator, I introduced Vermont's condominium law and was lawyer for the first condominium in Vermont back in the late 1960's. I have been well aware of both the pros and cons of the condominium way of life. I would emphasize that there are two sides here. I know that you are well aware of this.

In our area, the availability of condominiums both from a recreational perspective and from an option of living perspective has been very useful. On the other hand, having served in a tenants' association and having fought rather vigorously a developer and landlord for some 2 years in the courts, I am well aware of the serious problems that tenants find themselves in when they are faced with condominium conversions.

I would like to share with you some of my observations as to what I think it is necessary to do in this area.

First of all, what we have to talk about here in these kinds of confrontations is equalizing the bargaining power. You find that the tenants are usually in a state of confusion, not knowing what they are doing, and before they can find out, in most cases, except where there are some well-defined ordinances or statutes, they find themselves run over by people who are converting rental units.

The question is what should be done and who should do it. I believe that the primary role lies with State and local governments in this area. There is, however, a potential and perhaps necessary Federal role.

First of all, with respect to the State and local role, I think it is essential that either the States pass laws governing conversion of rental units or local ordinances be adopted, and perhaps the Federal Government could be of some help in devising model State laws or local ordinances. What should be included in those from my own perspective is the definition of what the tenants' rights are. Even in the District of Columbia, where things are fairly well developed, this is still very confusing and assistance is needed there.

You need adequate notice to the tenants, time for them to organize. They need time to adjust and to find out what their rights are. They need right of first refusal both with respect to attempts to sell to developers and with respect to their own units and possibly some rights for appraisal for purchase in the event of a condominium conversion.

They need the availability, at least low-income tenants, of seed money or the possibility of funds to assist them in purchases or to be able to organize as an effective tenants' association.

Another option which is being discussed in the Maryland Legislature I think is an excellent one. It is the possibility of Government purchase of rental units, with the right of first refusal.

The elderly have to be protected in some sense. There is certainly the possibility of insuring provisions for life tenancy options in condominium conversions or rather extended, continued rental for periods of time.

With respect to the Federal role, as a Republican I suppose, or an advocate of property rights, I would be reluctant to see the Federal Government get deeply involved in the kinds of things I was previously discussing.

However, obviously you can have the use of the powers of taxation to insure that the kind of options I was referring to are available. It would seem to me to be quite possible to give different tax treatment, as I believe the chairman has suggested, with respect to capital gains treatment if, for instance, you do provide for some of the options for the elderly or for tenants in general.

If you do provide these programs for the tenants, then you get capital gains treatment. If you don't, you get real income treatment. I think that is an adequate, fair way for the Federal Government to get involved. I don't believe it ought to get involved in the absolute and actual control over condominium conversion.

Also, of course, there is the possibility of the serious problems that tenants' associations are faced with in finding funds and exercising their rights of first refusal. This might make it desirable for Federal programs for low-income tenants to have funding available for this purpose on an adequate, fair interest return.

Those are some of my observations. I can go into the details of our own problems with conversions, but I wanted to concentrate more on what the options were with respect to this committee and generally in this area.

Mr. ROSENTHAL. Do you see this as an important concern either in Vermont or the District of Columbia or around the country?

Mr. JEFFORDS. I think it is a very important concern in the District of Columbia. I don't think it is an important concern in Vermont. We do not have, to my knowledge, any significant conversion of existing rental units into condominiums. All our condominiums are new construction and being provided as an option. That is why in my perspective as a Vermonter I would say that the intrusion of the Federal Government here is totally unnecessary.

As a part-time resident of the District of Columbia, having battled in the courts and elsewhere, I can see that there is certainly a role of Government in this area. There is certainly a role for State and local governments in this area and a necessary function for them to perform. As I said, the role of the Federal Government ought to be restricted to the kinds of options I was referring to.

Mr. ROSENTHAL. In the personal situation that you were involved in that was quoted in the press, could you tell us just what the numbers were? What was your rent? What was the proposed cost in that condominium?

Mr. JEFFORDS. The building that I have been living in consists of 26 units. My apartment is 550 square feet, which is not a very large apartment. It is a one-bedroom apartment with a living room and a small kitchen and eating area. As I understand, the unit was sold for \$73,000. I had an opportunity to purchase it at less than that in our negotiations.

What it would have meant to me was the rent that I have been paying is about \$285. Even with a favorable interest rate which is available at 12 percent, with a condominium fee, with the D.C. taxes, and the amortization, it would have cost somewhere in the area of \$800 and \$900 a month instead of \$285 in order to stay in that unit. That is with a 30-year amortization.

Mr. ROSENTHAL. Therefore, you decided to leave?

Mr. JEFFORDS. It is not a tax deductible item like it is for ordinary businessmen. I would have to make a decision of adjusting rather substantially the lifestyle of my family in Vermont or mine here in order to do that even with the tax deductibility of the interest. My only option was to move out to some other place.

If you look on the Hill, just apartment rentals would have been about \$500 or \$600. The other option is to move off the Hill and then you get into problems of commuting.

Mr. DAUB. I am glad that my colleague could come today and share with us his concerns about the condo conversion problem. I think it is one that rightfully ought to be examined.

Do you indicate that the answer should be local rather than Federal?

Mr. JEFFORDS. State or local. It would depend. I know Maryland is trying to do it on the State level. I think that is appropriate. I think local ordinances is also an appropriate role with respect to the items which I was talking about, that is, the adequate definition of the rights of tenants in trying to preserve the rights for certain classes such as the elderly.

Mr. DAUB. You would suggest that if we look anywhere we look at tax structure and see what we can do as opposed to trying to suggest that a legislative committee mandate some kind of controls?

Mr. JEFFORDS. That is correct. I think that if you want to try to provide for a relatively uniform approach to protect the rights of the elderly, then I would use either the tax method or conceivably make funding available for financing, providing a local community or State had provided protection and adequate laws.

Mr. DAUB. I wouldn't want to be welcomed to your club under any circumstances with regard to the differential that impacted on your salary.

My wife and I, too, have had some adjustment to go through coming to Washington, D.C. Our adjustment measures something like this, Congressman. It measured a salary of about \$42,000 at home, acquiring a \$60,000 level of pay upon election to Congress, living in a home in Omaha, Nebr., that had 4,000 square feet with three bathrooms, five bedrooms and three fireplaces, and finding that that home in Washington is worth half a million. We had to buy a house with 1,300 square feet in it here for a wife and three kids for three times the price in the private housing market at home. Should I be asking the Federal Government to do something about my circumstance by the same logic as you are asking us to do something about yours?

Thank you for coming today.

Mr. ROSENTHAL. Well, we could vote for a salary increase. That is an option.

Mr. DAUB. You may have, sir. I will not.

Mr. ROSENTHAL. It is only a suggestion. Mr. Hiler.

Mr. HILER. Thank you, Mr. Chairman.

Congressman, you would say that the comparable rental for the unit that was going to be costing you \$800 a month would be \$500 to \$600 here on Capitol Hill?

Mr. JEFFORDS. That is from a brief check with some of my staff who are renting a similar size and a little further away from the Hill. It is in that area.

Mr. HILER. Is the \$800 after an interest deduction?

Mr. JEFFORDS. No, it was not. If you subtracted the interest deduction that you would get on your income tax return, it would pull it down to somewhere in the area of the \$600 or \$700 bracket.

Mr. HILER. Really, then, the difference if you could extrapolate for comparable rental and for buying, you would be paying \$100 more to be having equity?



Mr. JEFFORDS. That depends entirely upon your income.

Mr. HILER. I am just taking your case.

Mr. JEFFORDS. In my case that is correct, but in the case of someone who does not have the benefits of the high salaries that we do, obviously the differential would be much, much more substantial.

Mr. HILER. No further questions.

Mr. DAUB. I had one other question. What were they offering you in your case for the differential that our colleague just examined? For that \$100 more in equity, what was the proposed advantage of your 550 square feet in conversion? Would you get new sinks, new tile, new drapes?

Mr. JEFFORDS. Nothing. I think it was painted.

Mr. DAUB. Painted.

Mr. JEFFORDS. Painted, no changes is my understanding. I must point out that those comparisons are for me as an individual with some of the elements of settlement involved. If you took the settlement involvement out of there, then you would probably have to add another \$100 or \$200 on to the price that I gave you.

Mr. DAUB. In your case, was there anything added when they gave you their notice that they were going to come in and refurbish?

Mr. JEFFORDS. In all fairness, there was an option there. The prices I have been giving you are an "as is" condition. You could have had some improvements made but you paid for them, obviously.

Mr. DAUB. Right. Thank you.

Mr. ROSENTHAL. Thank you very, very much for an interesting and informative testimony.

Professor Masotti, where were we?

Mr. MASOTTI. I think, Mr. Chairman, I was suggesting that there are some things that might be done in terms of both public policy and developer responsibility to deal with some of the gross inequities that we heard about yesterday and I think exist in other parts of the country as well.

There is the concept of set-asides which I alluded to just before the Congressman spoke. They are appropriate and are available in some cases and should be made available in other cases. There is no reason in the world for the people that we heard yesterday to have to tell those stories.

I would hope that we could pursue that, but I don't think that ought to be a matter of Federal policy. I think it is something that needs to be brought, and has been brought, to the attention of developers by hearings such as this and by hearings at the State and local level as well. I think the more reputable developers will do those kinds of things.

Life tenancy which the Congressman just mentioned is something which is also appropriate. There is no reason why, for example, the people that appeared on "Sixty Minutes" with us the other night, that 82-year-old couple, should not have been given life tenancy in that building.

Mr. ROSENTHAL. That was an American Invsco building.

Mr. MASOTTI. I don't know whose building that was. I just know that those people should not have—

Mr. ROSENTHAL. It was being converted by Invsco. As a matter of fact, the guy in charge of that building was sitting here. He was sitting right back there.

Mr. MASOTTI. I don't think it matters whose building it is. It seems to me what matters is that people's lives like that are jeopardized. I would like to see life tenancy awarded to people regardless of their income at some age level that could be determined. I think that tenants should be enjoined from unreasonable harassment. I don't think that is a matter of Federal policy, I think that is a matter of local litigation, local regulation, and local enforcement.

I think there ought to be some limits placed on speculation, on investor-owned units in buildings. Again, it may be questionable in law but it seems to me it is worth paying attention to. If one can put some limits on that I think we could deal with some of the questions that I have heard over the last day and a half.

I mentioned shared equity. If you could find ways, for example, to use the excess taxes that are generated by the value in conversion from one price to another—that is if the value goes up as high as everybody says it does, it rises while you are looking at the building—then that value presumably produces more taxes given a constant rate or an increasing rate. I would like to see some of those taxes used in a special fund which would help to alleviate the financial burden on elderly and handicapped and otherwise disadvantaged people.

Mr. ROSENTHAL. Those would be local taxes like in New York City, the Plaza 400 building; these apartments have doubled in the last year. Of course, the assessment is going to go up and that tax will go to the city.

Mr. MASOTTI. That tax goes to the city. What I would like the city to do is to have a set-aside for those taxes in a special fund that could be used to alleviate the hardships on individuals that would be otherwise required to move. I think that is possible in local law and State law. I think it ought to be addressed and is being addressed in some areas.

I also mentioned the shared equity notion. The State of California is experimenting in that area and ought to continue to experiment.

There are some areas where the limited ownership co-ops that Mr. Lauber referred to before are being experimented with and I think ought to be continued to be experimented with. That is a HUD program and this committee might take a look at that.

If I may, let me just read the last paragraph or two paragraphs of my testimony, and then I will entertain any questions that you or your colleagues might have because it makes my point as well as I can.

I think that condominium conversions in general, the concept of joint ownership, bodes well for communities, for neighborhoods, for cities as a whole, assuming that the displacement problem can be addressed successfully either through enabling the indigenous populations to buy into the housing market which I think is in their best interests if they can and want to—the notion of choice is important here—through creative financing schemes or by providing suitable and acceptable rental housing in such a way that the



social fabric of lower income and ethnic neighborhoods is not seriously disrupted.

It is my judgment that the process of converting multifamily buildings from single ownership to multiple ownership, either through condominium or cooperative arrangements, has the potential for filling a growing housing need for a changing urban population, while simultaneously offering a mechanism for salvaging a significant proportion of our valuable built environment and sustaining or rebuilding viable urban neighborhoods.

The condominium concept has proven itself for several thousand years, and its contemporary rediscovery as a viable tool for redevelopment at this juncture in our national history should not be underestimated, and I would argue not overregulated. Thank you very much for this opportunity.

Mr. ROSENTHAL. Mr. Daub.

Mr. DAUB. I am very much impressed by your credentials. The substantial amount of material which you have prepared and submitted for our consideration is appreciated.

I didn't get a chance, Mr. Chairman, and I want to go on record and apologize right now for not watching "Sixty Minutes" on Sunday. It got good reports. I understand that you both had some time on that program on this subject.

In a way, in some of your testimony you paint rather a grim picture in terms of what inflation has done to almost all types of housing markets as I read what you have written. You said earlier, in one of your answers to a question, that you think that the condominium is not a contributor to inflation, you think it is the result of inflation. Could you explain what you meant by that?

Mr. MASOTTI. I think it is partially a function of inflation. That is that there is an increasing segment of the population that is priced out of the traditional single-family detached home market, the kind of home you were describing in Omaha. The exact figures that I have seen recently indicated that between 85 and 90 percent of the potential home-buyer market is ineligible for purchase of homes in the average new homeownership price category. In fact, the figure that I saw 2 weeks ago was that only 6 percent are eligible financially, given the interest rates today and the costs of the homes themselves.

If that is true, we are creating what will be a population that has the desire to own, but there is no product for them to buy. What the condominium converters have done in part is to fill that need by providing homeownership opportunities at a price level substantially below the price level of single-family homes.

That is taking a considerable psychological as well as economic adjustment. Most of us, at least those of us who are over 35, have assumed that the American dream had something to do with a single-family home, except if you lived in New York City.

Mr. DAUB. You then suggest on page 9 that you might talk about the use of a device like the 235. How would that apply to someone 82 years old who has just gotten their notice that their building is going to be converted to condominium.

Mr. MASOTTI. It probably wouldn't. That is where I think the other mechanism should go into play. I think someone who is 85 years old should be given life tenancy. That should be both a moral

and a social obligation of the developer. It is not a legal obligation and I don't think anybody could enforce that legally the way I understand property rights in the United States. I certainly think it is a moral obligation and the developers should have their feet held to the fire on that issue.

Mr. DAUB. I would like to ask this final question. You have done a lot of consulting work. Would you think that something like the SEC disclosure requirements might be a part of the Federal prerogative to say that we are not going to have any rules or laws at the Federal level that prescribe fire codes, profit margins, controls and all the rest, but we are going to require you to publish a document like a stock offering?

Most States require some kind of a disclosure like that now where we talk about all levels of cost to the new buyer of the converted apartment. You are going to have to disclose what the relative options are and what the costs are going to be?

Mr. MASOTTI. I am not a lawyer, Mr. Daub, but I am not sure that would stand the test of law under the property rights—

Mr. DAUB. You wouldn't even want to go that far?

Mr. MASOTTI. I don't know whether I would go that far or not. I just don't know whether it would be legally possible. I certainly think it is the concern of this subcommittee to be concerned about consumer affairs, and there is absolutely no question that every potential consumer of a product like a condominium ought to be aware of all the potential costs. There shouldn't be any hidden costs. Those are being fairly well regulated, I think, by most cities that have any condominium activity at this point.

There has been a lot of imitative behavior. When a good consumer protection law is passed somewhere it tends to be imitated elsewhere.

Mr. DAUB. My comment to you is that you are well prepared. I appreciate your balanced view of the whole subject, both the pros and the cons. Thank you for taking time to be with us.

Mr. MASOTTI. Thank you, sir.

Mr. ROSENTHAL. Mr. Hiler.

Mr. HILER. How many housing units change hands a year?

Mr. MASOTTI. How many housing units change hands?

Mr. HILER. Yes.

Mr. MASOTTI. I don't have that figure at my fingertips. There are some that are related that might be of assistance. We have figures, for example, that indicate approximately 40 percent of all renters move every year. That is in a large part because there are more annual leases now than there used to be. Therefore, you get a lot of mobility in the rental market. This is to protect the owners in a large part so that they can have escalators in those rental clauses or to have annual renewable leases.

The figures we have generally used in the past indicate that about 20 percent of the American population has moved every year, and about 10 percent of those are interstate. That figure has declined in the past few years because of inflation and people who don't want to give up houses with 5-percent mortgages to move to an area like Washington and pay the kinds of figures that Mr. Daub was suggesting. I don't know the exact number but it is a very large industry.

Some work I did for the National Association of Realtors last year indicated that it is approximately a \$400-billion industry.

Mr. HILER. Housing is a \$400-billion industry?

Mr. MASOTTI. Overall. That is property transfers.

Mr. HILER. Do you have any idea how many homes we have in the country?

Mr. MASOTTI. No, sir. I don't have that figure with me right now.

Mr. HILER. How many condo conversions are there in a year?

Mr. MASOTTI. I am not sure if that chart is accurate. I think it is fairly accurate up to 1979.

Mr. HILER. I can't read it.

Mr. MASOTTI. Ted, can you tell what the actual numbers are? I think it is 140,000, approximately 150,000 in 1979. The figure that I indicated before has declined in 1980 because of the mortgage market. The overall number of condominium conversions, as indicated by HUD's rather massive study last year, was just under 400,000 units from 1970 to 1979 with an estimated increase by 1985 of another 1.1 million conversions. That is, it has been escalating, but I don't think one can extrapolate from the current figures, at least from the 1979 figures because the market has vacillated widely in the last 12 months.

Mr. HILER. Did you say an additional 1.5 million or up to 1.5 million in the 1979 to 1980 period?

Mr. MASOTTI. I believe it was up to 1.5. I am sorry that no one from HUD is going to testify to those figures, but I gather that they will have an opportunity at the next round from what I understood yesterday. You can get those figures directly.

Mr. HILER. Have you ever seen any figures on what percent the condo conversion market is as a percentage of the total housing stock transfer in a year?

Mr. MASOTTI. I know what it is in Chicago. In fact, it is in my testimony. I believe the figures are expected to be that about 40 percent of all property transfers by 1985 will be condominium transfers. That is because the Chicago area now has somewhere in the neighborhood of 70,000 to 80,000 condominium units in the central city and suburban areas. It will be about equally divided by 1985 assuming certain basics continue.

There are a large number of suburban condominium developments as well as central city ones in Chicago. However, the image is that they are all Lake Shore Drive buildings which is not true.

Mr. HILER. How many different condo converters would you guess there are in the country?

Mr. MASOTTI. It is very hard to tell. For example, I spoke to a group called the Association of Neighborhood Redevelopers not too long ago in Chicago. They are those Mr. Beckman referred to in his testimony as "ma and pa converters." They tend to be individuals or partners who convert 6 flats and 10 flats, and so forth. There is no record. You have been concerned with the giants of the industry so far, but I can assure you that there are a lot of small condominium converters who are converting sometime their own building with six units in it. These do not have the same kinds of intense problems that have been discussed here thus far.

Among the majors, I would guess we are talking maybe about 15 to 20 large converters, many of whom have now nationalized. That

is, they are operating in several cities. There are also several Canadians that are operating in this business. Daon, I believe, is the largest of those and operates primarily in the Florida area.

I don't have those numbers. I don't know what their gross numbers are, and I don't think that those numbers are generally available.

Mr. HILER. If you had to pick the No. 1 factor, affecting the housing market today, what would it be?

Mr. MASOTTI. Today?

Mr. HILER. Yes.

Mr. MASOTTI. Mortgage rates. I think that psychologically and historically it is too difficult for people to overcome 15, 16, and 17 percent mortgage rates. They are just convinced they will not stay that high, and if they do they will just have to make do with something else.

I think if mortgage rates come down as they have been promised by several agencies, to somewhere in the 11 to 12 percent bracket, people are going to consider that to be a bargain, and they are going to open the flood gates. I think there is a pent-up demand for housing that is being postponed at this point for both single-family homes, row houses, condominiums, and cooperatives. That market will change as soon as the money market makes that possible. It just isn't possible right now.

For example, with 17 percent interest rates, there are about 25 percent more people who are disqualified for mortgages. They just will not qualify by bank standards for mortgages. When that rate comes down more people will qualify. If the mortgage money is available those loans can be made and people will buy.

As I said before, I think it is getting more and more impossible for most people to afford to rent. This is not because of the monthly cash flow but because of the overall problem of some appreciated investment over a period of time.

That goes for the low-income groups as well. I have made a proposal in Chicago to the Illinois Housing Development Authority that we seriously consider a conversion to joint ownership, condominiums if you wish, or cooperatives of one or more, on an experimental basis of public housing projects. This, by the way, was done by Great Britain a year ago. They turned over 7 million housing units. They put them on the market for sale to their owners at discounts of 50 percent off the market value of those properties. To be sure, British public housing, so-called housing estates, are considerably better than American public housing. Nonetheless, that is a possibility for giving ownership options, I think, to the low-income and welfare recipients.

Mr. HILER. This is my last question. If the mortgage rates were 5 or 6 percent, that dream world that was 10 years ago, do you think we would be having these kinds of hearings today? Do you think the kinds of problems that have been talked about would have emerged that would have necessitated our looking into the problems alleged here today?

Mr. MASOTTI. I think these hearings would continue to be held as long as people like those people who were testifying yesterday were being damaged, when lives are disrupted as seriously as they have been. I don't think the interest rates necessarily would have made

the difference. It was that combination of that plus the price. Those are people on fixed incomes or limited incomes that would have difficulty under any circumstances.

Mr. HILER. Thank you very much.

Mr. ROSENTHAL. Thank you very much, Professor Masotti. It has been very useful and very important testimony.

[Mr. Masotti's prepared statement follows:]

Testimony of

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and

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Before the

Subcommittee on Commerce, Consumer and Monetary Affairs

of the

Committee on Government Operations

U. S. House of Representatives

Washington, D.C.

Tuesday, March 31, 1981.

Mr. Chairman and Members of the Committee:

My name is Louis H. Masotti. I am a professor of political science, urban affairs, and policy research and Director of the Urban Housing Research Project at the Center for Urban Affairs and Policy Research, Northwestern University in Evanston, Illinois. For nine years, until September, 1980 I served as Director of the Center for Urban Affairs and Policy Research. From 1975-80 I was Editor-in-Chief of Urban Affairs Quarterly, an academic journal devoted to the analysis of urban phenomena.

Under my direction the Urban Research Housing Project has recently published three major reports related to condominiums:

1. Economics, Housing and Condominium Development
2. The Condominium Phenomenon: A Selected Bibliography on Market Trends, Management and Conversion Regulatory Policy
3. Condominium Ownership: A Preliminary Analysis of a National Survey

Copies of each have been made available to members of the Committee.

Copies of my curriculum vitae detailing my other academic credentials and listing my publications have also been made available to the Committee members.

In addition to my academic role, I have for many years served as urban affairs consultant to government agencies and officials, foundations, the media, private sector corporations, and neighborhood organizations. I have also been retained as an urban advisor/consultant by a variety of institutions involved in the real estate industry; among them are The Seraco Group of Sears, Roebuck, the First Chicago Neighborhood Development Corporation, and American InvSCO. I am currently engaged in a major academic research project focused on the dynamics of urban development in five major cities.



When the history of urban America in the 1970s and 1980s is written, the condominium phenomenon will be identified as one of the two or three most significant factors in meeting America's changing housing needs and in revitalizing its inner cities.

Major shifts in the dynamics of the nation's demographics and dramatic economic fluctuations have had significant impact on housing and lifestyle options and preferences.

Simultaneously, the condominium -- literally "joint ownership" -- emerged as an alternative form of home ownership that met the housing needs of a growing segment of the population. The condominium concept also made it economically viable to rehabilitate, redevelop and re-use large numbers of deteriorating urban buildings.

The term, "condominium", has engendered a great deal of controversy over the past few years. It is, however, a controversy that often seems to be focused on the wrong issues.

Rather than exploring the options that the condominium concept offers individuals, communities and society in a period of rapidly changing social structure, lifestyles and economics, the controversy dwells almost exclusively on those who may be seriously inconvenienced or displaced involuntarily by the conversion of rental building to condominium residences.

This is, in fact, a real consequence of some conversions for some people, and the flood of litigation and legislative controls that have ensued is testimony to the efforts being made to protect tenants and consumers from unfair, inequitable and unscrupulous treatment in the conversion process.

But the intensity of such controversy too often causes us to lose sight of the opportunities that the condominium concept offers to cope with the housing needs and enhance urban redevelopment opportunities of the 1980s.

A recent analysis of the housing industry for the 1980s suggests that inflation, high interest rates, soaring land and energy costs, among other factors, have priced an increasing number of families (and a growing number of adult singles) out of the housing market.

Although some abatement is predicted during the decade, it is unlikely to be great enough to put the cost of a new house within reach of the average American household.

If we anticipate the 1980 census and extrapolate from it for the next ten to twenty years, it becomes quite clear that the predictable fact of high housing costs will be confronted by the irresistible force of a household population explosion and a derivative demand for housing.

We can expect an increase in the number of households over the decade of some 17 million, which will mean that by 1990 we will have experienced a 50 percent increase in household formation since 1970. The numbers are irrefutable.

During the decade 42 million people -- the 1950's "baby boom" -- will turn 30 years old (compared to 32 million in the 1970s), and the over 65 population will increase by 5 million, most of whom will continue to live in separate households.

The 96 percent increase in the divorce rate during the 1970s shows no sign of abating and will continue creating still more households in the 1980s.

Further, there is a significant increase in the number of young adults who choose to live alone, thus adding to the number of households and increasing the burden on an already overtaxed housing stock.

Home ownership is a growing American tradition. Sixty-five percent of the population own their own homes now compared with only 40 percent in 1940.

The vast majority of the expected 17 million new households predicted for the 1980s will attempt to buy homes even though they are becoming increasingly aware that it will not be the traditional single-family detached dwelling on a plot of land.

Not only does recent tradition suggest the urge for home ownership, but public policy encourages it through federal income tax laws that, in a period of growing inflation, transfer home ownership from mere shelter to the average household's most significant investment and hedge against inflation.

Further, changing lifestyles -- especially the postponement of children and the related probability of two income households -- combined with growing tolerance of consumer patterns that permit a larger proportion of disposable income to be spent on housing, have made it possible for an increasing number of households to eschew the diminishing rental market.

The so-called "American dream" of an owner-occupied single-family detached house has been disrupted, if not destroyed, for about 85 percent of those entering the housing market by an inflationary spiral that has driven average new single-family house prices beyond \$80,000 with the price of used homes close behind.

Respected analysts predict 1990 average single-family home prices of almost \$160,000 -- an increase over current levels of about 100 percent.

These increases are likely to be greater than the predicted growth in personal income during the decade by about 20 to 25 percent, thereby substantially increasing the financial burden of home ownership. All the evidence suggests, however, that most households are willing to dedicate a larger portion of their budgets -- 35 to 40 percent as opposed to the traditional 25 percent -- in order to own their own residences.

The perceived need of individuals and families to take advantage of the tax benefits afforded to owners versus renters, combined with the growing economic disadvantages of rental building ownership, created the market conditions in the 1970s necessary and sufficient for the conversion of rental buildings to condominium ownership (and in some areas, notably New York City, cooperatives).

A recent study on the economics of condominium conversion by the Center for Urban Affairs and Policy Research at Northwestern University concluded that economic, social and demographic forces have converged to create an environment highly conducive both to building multi-family buildings for condominium use and to converting existing rental stock to condominium ownership.

Because of the dramatic increase in the cost of new construction, condominium conversions where all three major parties to the process -- apartment building owners, converters and unit buyers -- are likely to gain, have made a major impact on an increasing number of urban housing markets.

At a time when the demand for home ownership is growing and the cost of traditional single-family detached homes has outpaced income, the concept of shared building ownership -- condominiums -- is becoming culturally acceptable to a broader spectrum of the population and economically attractive as a combination of shelter and inflationary hedge.

The upsurge of conversion in the last few years makes the point graphically: 45,000 in 1977; 85,000 in 1978 and 150,000 in 1979.

Despite a recent decline, due largely to the unprecedented high and erratic interest rates and the difficulty of obtaining mortgages, all indicators suggest a rapid resurgence of condominium sales when the mortgage market stabilizes at a level acceptable to buyers or when new creative home financing techniques become viable.

The Chicago area is identified by many as the "condo capital" of America because of the large number of conversions here. Depending on whose numbers you use, currently there are 60,000 to 80,000 condominiums in the metropolitan area.

A four year (1976-1979) analysis of home sales trends in the Chicago area indicated that condominiums may soon account for the majority of sales in the city and a quarter of sales in the suburbs.

The percentage of all home sales represented by condominium sales rose from 17 to 42 percent in Chicago and from 11 to 21 percent in the suburbs, for a combined 1979 Cook County percentage of 30 percent, up from 12 percent in 1976.

While the 1970s condominium boom may have begun in Chicago, the phenomenon has spread throughout the nation, and housing markets in every region have been impacted by the condominium concept. There is no doubt that

the condominium is a significant national housing variation produced by some dramatic and volatile social and economics forces in our society.

If the condominium phenomenon is a function of underlying social and economic factors in a period of societal flux, it has also caused a widespread political reaction on the part of those who feel "condomania" is either elitist (and therefore exclusionary), inflationary, or both.

Tenants of converting buildings have organized political action groups. City, county and state legislatures throughout the nation, and even the United States Congress, have passed or have under consideration a vast array of ordinances, statutes and resolutions to control, regulate and even prohibit condominium conversions.

Litigation is bountiful, and major issues of due process and property rights are being addressed in courtrooms around the country.

There is a growing sound and fury over conversions, and there are significant externalities to be assessed and adjustments -- procedural and substantive -- to be made in the interests of equity and justice.

However, I would contend that much of the debate over conversion regulation and especially prohibition -- whether de facto or de jure -- misses the point.

Despite the hardships such conversions may make for some segments of the population -- especially the involuntary displacement of the elderly, those on fixed income and young adults without accumulated capital for conventional down payments -- the brisk sale of units in converted and the few new condominium buildings argues forcefully for the existence of a real market for condominium housing in urban areas.

The critical problem may be finding ways to permit more of the population to take advantage of condominium ownership, especially those who now feel excluded and abused by the phenomenon.

The condominium as a housing concept is neither good nor bad. To the extent that condominiums permit home ownership for the present and anticipated home buying market, it is obviously filling a gap created by the inadequate number and exorbitant prices of new and existing single-family homes.

The average \$45-55,000 price of condominium homes is significantly less than the \$65-75,000 average for single-family dwellings, although even the condominium price range excludes too large a proportion of the growing market.

The need is as obvious as it is imperative: Identifying a creative combination of public policy supports and private sector incentives to facilitate the purchase of condominium homes for a larger segment of the housing market, and particularly at the low and moderate income levels.

The displacement of rental building occupants in the process of conversion to condominiums can be mitigated by positive governmental policies that promote home ownership, and by politically realistic and socially responsible practices by lending institutions and developers/converters that protect existing housing opportunities of vulnerable renter populations where feasible and provide new options for them.

There are in existence at both the federal and sub-national level policies and practices that have been, or can be, employed to reduce displacement by condominium conversion, and to enhance opportunities for



home ownership with all that that implies for individuals psychologically and economically, and for communities: renovation of existing housing stock, increase in the tax base, stabilization of social relationships, and increased commitment to the viability of neighborhood and city.

Section 235 subsidies, discontinued since the mid-1970s, could be made available to low and moderate income tenants who wish to buy their units in buildings converted to condominiums.

The Government National Mortgage Association (GNMA or "Ginny Mae") provides an interest subsidy that permits lenders to offer mortgages at a below market interest rate. Since 1976 it has concentrated its entire appropriation on multi-family rather than single-family (including condominiums) mortgages, but there is no logical reason why such subsidies could not be made to qualified condominium buyers.

A more controversial option for expanding condominium ownership involves shared capital gains.

The shared equity or appreciation mortgage (SAM) approach allows the government as lender and subsidizer of mortgage payments to become part owner of a housing unit, such as a condominium, and to share in the payments as well as the profits made from the appreciated property at the time of sale or upon the death of the owner.

The advantage to government involvement in subsidization is the so-called "take out," as opposed to the ongoing subsidy under such programs as Section 8 rent supplements.

Such an approach seems to be mutually advantageous: i.e., renters become owners with all that that implies both economically and psychologically, and

the government becomes a participant in an investment rather than a perpetual subsidizing agent without possibility of investment recovery.

There are some very important experimental programs designed to provide increased opportunities for low and moderate income ownership.

Chicago initiated an imaginative program a few years ago to offer subsidized eight percent mortgages for thousands of low and moderate income families in an effort to encourage home ownership, including condominiums. That plan was emulated in a number of cities, and an attempt has been made to encourage a national policy based on this approach.

In another effort by cities and the federal government to extend the rapid growth of home ownership to low income families through cooperative and condominium conversions, there are more than 25 low income cooperative projects in cities as disparate as Berkeley, California; Denver, Colorado; and Fairfax County, Virginia.

One of the projects located at 810 West Grace Street in Chicago will provide 240 cooperative units in a high-rise building that was deteriorating and would have otherwise gone into default.

Such programs have several advantages. They remove the onus of welfare housing from neighborhoods. They ensure that local residents will not be displaced by increased housing costs, and they provide a method to end the constant public financial drain of rehabilitating low income housing.

Many of the buildings being turned into cooperatives are deteriorated or even abandoned. Utilizing such buildings as cooperatives salvages housing units at a time when there is a shortage of low income units. Turning the properties into cooperatives also keeps them on the tax rolls.

Such projects, which require that low income families make modest down payments for their cooperatives and permits them to receive rent supplement payments under the Section 8 program, allows low income owners to build equity, to share in appreciation and, perhaps most importantly, to derive a sense of economic participation in progress rather than experience continued dependency.

In a similar but more dramatic move, the British government introduced a radical new housing policy, offering the approximately 7 million tenants now living in public housing projects the right to buy their dwellings at discounts up to 50 percent off the market value, with 100 percent mortgages financed by the government.

Among the advantages cited, the plan was designed to give tenants an opportunity to acquire a capital asset whose value is rising and to liberate them from stifling rules and regulations concerning their lifestyle.

While there has been some discussion of experimentation with condominium or cooperative conversion of public housing in the United States, there is at this point no plan to do so. It is, however, an idea worth serious consideration by state and city housing development agencies.

The condominium concept is being employed in imaginative and inventive ways in the exciting revitalization process in cities across America. The recycling of deteriorating, under-utilized or abandoned buildings of sound construction for residential use is a rapidly growing phenomenon both in Chicago and elsewhere.

One of the best known projects in Chicago is Printers' Row on South Dearborn Street, which not only will rescue those buildings from oblivion

but will provide housing opportunities for people who wish to live in the city center and economically revitalize the South Loop.

A number of hotels that are not economically viable in today's market are being converted to apartments. Examples are the Taft Hotel in New Haven and the Opera and Benjamin Franklin Hotels on the upper west side of New York.

Three troubled hotels on the South Michigan Avenue strip in Chicago -- the Pick-Congress, Blackstone and Conrad Hilton -- might appropriately be considered candidates for conversion to residential properties as part of a master plan to revitalize the South Loop.

Although most of the discussion concerning condominium conversion in Chicago has focused on the luxury buildings along North Lake Shore Drive and several in Hyde Park, the condominium phenomenon has clearly moved away from the Lake and into structurally sound buildings in neighborhoods undergoing rehabilitation and revitalization.

Rogers Park and some sections of Uptown, as well as neighborhoods in the near Northwest area, are undergoing significant rehabilitation utilizing the condominium process.

This bodes well for these communities and for the city as a whole, assuming that the displacement problem can be addressed successfully either through enabling the indigenous population to buy into the housing market through creative financing schemes or by providing suitable and acceptable rental housing in such a way that the social fabric of lower income and ethnic neighborhoods is not seriously disrupted.

It is my judgment that the process of converting multi-family buildings from single ownership to multiple ownership, either through condominium or cooperative arrangements, has the potential for filling a growing housing need for a changing urban population, while simultaneously offering a mechanism for salvaging a significant proportion of our valuable built environment and sustaining or rebuilding viable urban neighborhoods.

The condominium concept has proven itself for several thousand years, and its contemporary rediscovery as a viable tool for redevelopment at this juncture in our national history should not be underestimated or over-regulated.

Mr. ROSENTHAL. Our next panel of witnesses includes Mr. Rolf Goetze, Mr. Chester Hartman, and Mr. Calvin Bradford. If you will take your seats, we will take a very short 3 to 5 minutes recess.  
[Recess taken.]

Mr. ROSENTHAL. It is listed Mr. Goetze, Mr. Hartman, Mr. Bradford. We will reverse order and go first with Mr. Bradford.

**STATEMENT OF CALVIN BRADFORD, DIRECTOR, COMMUNITY DEVELOPMENT PROGRAM, DEPARTMENT OF COMMUNITY PROGRAMS, AND THE HUBERT HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA**

Mr. BRADFORD. Thank you, very much.

Mr. ROSENTHAL. We are very pleased that all of you could join with us today.

Mr. BRADFORD. I am the director of the community development program at the University of Minnesota, and a faculty member of the Hubert Humphrey Institute of Public Affairs. I have worked for 10 years on issues of housing, disinvestment, reinvestment, and particularly on the practices of lenders, banks and savings and loan associations which are regulated by the Federal Government agencies over which you have jurisdiction in terms of oversight.

I don't want to read my statement. I want to sort of summarize what is in there.

Mr. ROSENTHAL. Without objection, the statement will be included in the record.

Mr. BRADFORD. In particular I want to talk about things that relate to the jurisdiction of this subcommittee. One of the things that I want to say that is fundamentally important is that for every good condominium conversion you have heard about, and for every bad condominium conversion you have heard about, there has been a lender involved. None of these conversions would take place without a lender agreeing, before the conversion even takes place, to set aside part of their limited mortgage money to promise to give to this developer the mortgage moneys for the people who buy those condominium units.

Therefore, it is the access to this mortgage money which is the driving force, the fuel, for the condominium conversion process. It can't take place without it no matter how much developers want to convert buildings for the profits or tax shelters involved.

Therefore, I want to say a few words about that because there are already laws and regulations on the books which should require that lenders be responsible and, indeed, that lenders not participate in conversions which do not serve low-income people but, in fact, displace low- and moderate-income people. We don't need new legislation to make that happen. The legislation is already there, particularly in the form of the Community Reinvestment Act of 1977. However, the Federal agencies have not been enforcing that regulation.

I want to give you a couple of quick examples of ways in which lenders participate in the conversion process and lead to some of these abuses. These examples are picked particularly because they represent a large share of the condo conversion market, and they are totally voluntary efforts on the part of the lenders. If they participate and it hurts people or if they choose not to participate and it helps people, this would have no effect on the safety and soundness of those institutions.

The first case I want to look at is tax-exempt mortgage bonds. Governments can sell tax-exempt mortgage bonds to provide for housing. Because the bonds are tax-exempt—because of the IRS code which allows governments to sell tax-exempt bonds, they can raise money and, in essence, subsidize interest rates below the market. The Government can turn around in the case of mortgage bonds and pass on these savings to the homeowner or the borrower in the form of subsidized mortgage interests.

What we have seen in the last 3 years is that municipal governments have used these programs to provide mortgage subsidies, a great many of which are involved in condominium conversion and, unfortunately, a great many of which are used to provide housing opportunities for high-income people, not low-income people. This raises questions about the public purpose of this tax-exempt status.

The first bond program sold by the city of Chicago in 1978, for example, used 30 percent of the proceeds to finance condominium conversion and had income limits all the way up to \$40,000. Many of the mortgage bond programs have no income limits at all.

I would like to summarize the program in St. Paul, near where I live. You can see, condensed down almost to oblivion, in the statement you have a full-page ad for this program in a local newspaper. It advertises \$23 million, over half the proceeds of this mortgage bond program, at 9¾ percent with only 5 percent down, specifically to finance condominiums from \$29,000 to \$225,000. The program was only used for existing buildings.

You can see by the map which is included that most of those condominium projects to which the city committed that loan money are located in a particular neighborhood. It is the largest low-income, minority neighborhood in St. Paul. It was already undergoing severe displacement from condominium conversion in the private market. The city used tax-exempt money to provide 9¾ percent interest at a time when the market was charging 14 percent to provide for high-income people to rehab existing structures,

taking many of them out of the hands of the existing low-income residents and turning them into luxury buildings, complete with Jacuzzis, glass chandeliers and marble fireplaces.

Mr. ROSENTHAL. You guys have a tendency to go too fast. Why did that happen?

Mr. BRADFORD. At that time as well as at this time the Federal laws governing the sale of those mortgage bond programs didn't prohibit that from taking place.

Mr. ROSENTHAL. Why would anybody have made that kind of a decision to get prohibition?

Mr. BRADFORD. Do you mean the Government or the lenders?

Mr. ROSENTHAL. Who made the decision? Was it the city of St. Paul that controlled this money?

Mr. BRADFORD. The city packaged the mortgage bond programs but all the loans are made through savings and loans associations, mortgage bankers, and banks. Therefore, the banks and savings and loans agreed to act as the agent of the city to make these loans.

Mr. ROSENTHAL. They are the ones that made the judgment to make these loans. The five banks that are listed on the bottom of the ad, they made the judgment as to whom to make the loans to.

Mr. BRADFORD. That is right. Those five banks agreed to participate in this program and to make the loans to such developments.

Mr. ROSENTHAL. Does anybody from the city say to them, "Hey, wait a minute. Why don't you make them to the low-income people rather than to luxury types?"

Mr. BRADFORD. No. As in this first case, a lot of the time the cities like to finance high income people. They see that there is a way of drawing higher income folks back into their cities, and they are not particularly inclined to want to serve low-income people, even though they are using a tax-exempt program.

The point I want to make in this case is that lenders have an obligation to the Community Reinvestment Act to help try and serve low and moderate income people, whether the city abuses that right or not. Therefore, when they decide to join in that program, they may be abusing that right.

We have a good example of the second problem in Minneapolis. The largest savings and loan there not only made loans under the tax-exempt mortgage bond program but savings and loan associations are allowed by the Federal Home Loan Bank Board to own and put assets into a service corporation that can actually own real estate.

In this case the savings and loan association isn't just a lender, they are also the developer. In this case they were able in one building, for example, in 5 months to invest \$200,000, convert the building to a condominium, sell it off, and make \$800,000 profit for an 800-percent rate of return on their investment.

They displaced 90 percent of the people who lived in the building. They sold 93 percent of the units to single individuals even though the city had designed the housing mortgage program to serve large, low-income families and had decided to help in condominium conversion precisely to avoid displacement, by setting up a program to help lenders work with existing tenants to buy their own building.



Minneapolis is a very civil place. Rather than develop any actual regulations requiring the lenders to do this, they banked on good faith efforts of the lender to work with the city. Twin City Federal decided instead to go after huge profits and use the program designed to help low-income families, to displace low-income families in favor of making their condominium project extremely lucrative.

The Community Reinvestment Act is the fundamental tool that the regulatory agencies can use to insure that lenders don't participate in these kinds of abusive practices. You can file a challenge under the Community Reinvestment Act against the lending patterns of an institution that gets involved in these kinds of practices.

In fact, in Minneapolis that is what happened. The Minnesota Tenants Union filed a challenge when Twin City Federal applied to merge with another savings and loan and a public hearing was held. Representatives from the city government came and talked about their outrage at what Twin City Federal had done to pervert the intentions of their program and serve higher income people for the self-interest and profit motives of the savings and loan. Therefore, instead of producing the 300 units of housing for low income families they wanted, they produced only 12. Instead of helping tenants own their own buildings, the program was used to displace 90 percent of those tenants.

The response to the Federal Home Loan Bank Board in the first case which they heard, after letters were sent out from the House Banking Committee asking them how they were going to enforce section 603, was to hold an "unscheduled meeting" on January 16 of this year to approve Twin City's merger application absolutely without comment and without any conditions on that approval. They did this even though they had made a public promise that they would never in the case of a Community Reinvestment Act challenge, make that decision, without discussion of why they had made that decision. When they were given written requests later on asking why they had done this without comment, they said that the discussion would "serve no useful purpose."

I got a phone call after that decision came out from one of the largest lenders in the city of Minneapolis who was sort of flabbergasted at the Bank Board's decision. He said, "This is a license to kill." One of the largest lenders in the city of St. Paul did not participate in this program precisely because—

Mr. ROSENTHAL. In our next series of hearings, we are going to have the Home Loan Bank Board before us, and we will bring up this issue and a whole bunch of other things.

Mr. BRADFORD. The other point is, as one lender was pointing out in St. Paul, he didn't participate in that mortgage bond program because he thought it displaced people and that lenders had an obligation not to do that, not only under 603 but under the Community Reinvestment Act. He said:

Why would a lender do what I am doing and abstain when there is absolutely no penalty from the Federal regulatory agencies when you go ahead and flagrantly violate those kinds of commitments?

That concludes the essence of my statement.

Mr. ROSENTHAL. This is very important. We are going to bring up all those matters when the Home Loan Bank Board testifies.

[Mr. Bradford's prepared statement follows:]

Statement of Dr. Calvin Bradford before the Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations

March 31, 1981

Good morning! My name is Calvin Bradford. I am the Director of the Community Development Program, at the Department of Community Programs and the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota. For over ten years, I have worked with housing groups, community organizations, state and local government, Federal agencies and members of the banking industry on issues of disinvestment and reinvestment. The problems of displacement and increased housing costs which you have listened to in these hearings are an all too familiar experience in my work in different communities across the country. While working as a consultant to the National Commission on Neighborhoods, I saw how pervasive the problems of displacement are becoming. One of the prime causes is, of course, condominium conversions.

From my background in the practices of lending institutions, I have come to tell of another story of the impact of uncontrolled conversions. This is a story about how lending institutions, particularly savings and loan associations, can make a killing on condominium conversions. We all know that conversions depend upon the availability of mortgage money for the sale of the units after conversion.

But federal savings and loan associations can do more than fuel the conversion process by agreeing to make the mortgage loans. They can actually become the developer and reap the real source of profits, the conversion process itself. Finally, they can use their access to special pools of mortgage funds with subsidized interest rates to insure the profitability

and highest sale values for their own conversion projects. You have heard many stories of the exploitation of the market by developers. Now I want to tell you that some of these developers are savings and loan associations, regulated by the Federal Home Loan Bank Board.

I have, as an example, a case of one lender which represents all the issues I want to raise. You will see how this lender used a mortgage program, designed for poor families, to finance a conversion project to young single professionals instead, displacing over 90% of the original renters. And you will see that the savings and loan involved not only made the loans, but was a partner with the developer in the conversion, resulting in huge windfall profits of over \$1.5 million in just a few months time.

All of this exploitation results from the use, and abuse, of programs and privileges resulting from federal laws and regulations. The oversight role which this subcommittee has over the activities of the federal financial regulatory agencies, and the Federal Home Loan Bank Board in particular, contains the key to correcting most of these abuses. The single most important piece of banking legislation at issue is the implementation of the Community Reinvestment Act of 1977.

Federal laws, program regulations, guidelines, and a sense of Congress resolution all converge to insure that banks and savings and loan associations use their credit powers to the maximum advantage of all people. In particular, this battery of federal protections places a special responsibility on lenders not to engage in activities which displace or otherwise do harm to moderate and low income people.

A. The Community Reinvestment Act

The Community Reinvestment Act (CRA) was introduced specifically to insure that federally regulated lenders understood that they had a "continuing and affirmative obligation" to serve the credit needs of all the people within local community, or communities, where they do business. The intent of the law was to insure that the credit needs of low and moderate income people were not ignored. The act was specifically defined to protect the interests of these low and moderate income people. Therefore, questions of the displacement of lower income people and the resulting replacement of these people with higher income groups (gentrification) are at the core of the Community Reinvestment Act.

In the regulations implementing the Act, examiners are directed to pay special attention to several factors, including the extent to which lenders participate in local housing programs. The examination guidelines specifically mention the positive weight to be given to the efforts of lenders to assist local government with the Federal Community Development Block Grant Program.

B. The Housing Assistance Plan and the Community Development Block Grant Program

Under the Federal Community Development Block Grant Program (CDBG), a community must have an approved Housing Assistance Plan (HAP) setting out exact goals and defining the programs to be used to meet these goals for providing housing to low and moderate income people. Communities which do not try to meet these goals can have their federal funds cut off.

HUD sent out a notice in June of 1979 making sure local

governments receiving Community Development Block Grant Funds were aware of the obligations of lenders under the CRA. The notice encourages these local governments to use these CRA obligations to involve lenders in helping the local government meet its housing goals.

In addition, CDBG recipients are also required to have an anti-displacement strategy. Of course, the problem of displacement is at the heart of the condominium conversion issue. Now we see that lenders have an obligation under the CRA to use available resources to meet the credit needs of low and moderate income people. One way they can do this is by their participation in the programs of a local government's Housing Assistance Plan. This participation carries with it an effort to minimize displacement.

#### C. Sense of Congress Resolution

Finally, in the area of condominium conversion, Congress passed Section 603(c) of the Housing and Community Development Act of 1980. This is a sense of Congress resolution stating:

It is the sense of the Congress that lending by federally insured lending institutions for the conversion of rental housing to condominiums and cooperative housing should be discouraged where there are adverse impacts on housing opportunities of the low-and moderate-income and elderly and handicapped tenants involved.

Thus, lenders are advised to be especially concerned with displacement when becoming involved in condominium conversions.

#### II. Lender's Abuse of their Role

The federal government is also responsible for two of the most valuable tools which lenders can use to meet the credit needs of low and moderate income people and to provide for homeownership without

displacement. This first tool, tax exempt mortgage bonds, can be used by all lenders. The second tool, the right for lenders to become directly involved in the development and ownership of real estate is presently restricted pretty much to federal savings and loan associations.

Holding companies which own banks may also own companies directly involved in the purchase and sale of real estate, but these activities belong to the holding company and not any single bank itself. However, the Comptroller of the Currency has ruled that under certain conditions, including an orientation toward serving the needs of moderate and lower income people through housing and economic development, a national bank may invest in a community development corporation which it may own in whole or in part. To date there are only a handful of these community development corporations.

The way lenders use these resources can either serve the needs of lower income people or it can actually contribute to their exploitation, especially in the condominium conversion process. Either way, the lenders role is absolutely essential to the impacts.

#### A. The Use of Tax Exempt Single-Family Mortgage Bonds

One of the most common tools used by state and local government to provide housing for moderate and lower income people is to sell tax exempt bonds. The proceeds of this sale are used to create a pool of funds for mortgage loans. Because the interest on these bonds is tax exempt, investors will buy the bonds at interest rates below the current market rates. These low interest rates are passed on to homebuyers in the form of reduced interest on the home mortgage. Thus the tax exempt status of the bonds produces an interest rate subsidy. The bonds are paid off by the mortgage payments of the homebuyers.

In times of rapidly rising interest rates, these bonds can provide mortgages at from two to five percent below normal rates charged by private lenders. This subsidy results from provisions in the IRS codes which allows governments to sell bonds which are tax exempt. Presumably, this subsidy is used for a public purpose, such as providing housing for those who could not afford it otherwise.

Although this is money raised by the local government, private lenders are involved. They bid for these bond funds. Then they actually make the mortgage loans and sell the loans to the local government until they have made enough loans to use up their commitment of these funds. The lenders must make the loans using standards set by the local government for the bond program. Lenders get a fee for originating each loan. Local governments usually pay a lender, or another agent, to service the loans.

State housing finance agencies have been selling tax exempt bonds since the late 1960's, and they have been selling bonds for single-family mortgages since the early 1970's. Municipalities started selling single-family mortgage bonds in 1978. Since that time, the use of single-family mortgage bonds has snowballed. In 1978, municipalities sold just \$500,000,000 in such bonds. State housing agencies sold another \$2.8 billion. But by the end of 1979, when major legislation was being considered in Congress to limit the use of these bonds, municipalities had issued another \$3 billion and state agencies had issued \$4 billion.

It is the use of the municipal mortgage bonds which has resulted in the greatest abuses of this federal subsidy. The



abuses began with the first of these bond sales - \$100 million in bonds sold in 1978 by the City of Chicago. The patterns established by that program have continued to the present. Anyone with a taxable (not gross income but the after deductions, taxable income) of \$40,000 or less was eligible for these subsidized loans. Moreover, a substantial portion of these loans, 30% were for condominium conversions. This pattern of serving higher income people and serving the process of condominium conversion persists. Later in 1978, the mortgage bond sale in Denver provided for 767 mortgages, over 50% for condominiums. Another issue, with income limits of \$50,000 in Evanston, Illinois, provided unnecessary funding for condominium conversions in a local market where conversions had already created a crisis in rental housing. I know because I was Chairman of the Evanston Housing Rehabilitation Board up until the time when these bonds were sold.

The example of St. Paul, Minnesota illustrates the abuses well. Last year they sold \$40.9 million in single-family mortgage bonds for the purchase and rehabilitation of older and deteriorated buildings. The bonds provided mortgages at 9 3/4% during a year when mortgage rates in the normal market were as high as 14%. This could have provided needed rehabilitation for moderate income families, but it didn't turn out that way. The program, the Below Market Home Rehabilitation program (BMHR for short), set net income limits of \$24,000 (after an adjustment for family size). But these limits were waived if a person invested more than \$25,000 in rehabilitation. (A program in the previous year waived income limits when the housing was located in target

areas defined as having very low incomes of major housing deterioration.) Finally, the city made specific commitments to developers to convert some vacant and some occupied buildings into condominiums.

The result was a program which encouraged lavish rehab. After all, the more money you had for rehab, the more likely you were to qualify for a loan with the income limits waived. I participated in a local study done of this program by the Community Planning Organizations, Inc. a non-profit, public interest research and technical assistance group in St. Paul. That study showed that as of September 12, 1980, 283 loans had been made. A total of 36% of these loans, and 48% of the money, went to people who had the income limits waived. The average income of the group was over \$42,000. Over 40% of these people were former homeowners. Finally, over 40% of these units were condominium conversions.

I submit the advertisement for this program. (Exhibit A.) As you can see, condominium prices ranged from \$29,000 for an efficiency to \$225,000. Moreover, the map of part of the city shows how they are concentrated in a single neighborhood of St. Paul. This is the Summit-University area, a heavily minority, lower income area which was already undergoing gentrification and displacement as people sought to restore the once elegant older homes and apartments. The City mortgage funds accounted for over 80% of all sales in 1980, and they accounted for the highest priced share of the market, thus heating up the market and driving up rents and housing values,

and encouraging more conversions.

Many cities see mortgage bonds as a way of attracting higher income people back to the city. Consequently it is the municipal bond programs which have been most abused by both local governments and lenders. In testimony before the House Ways and Means Committee on May 14, 1979, one statistical study showed that of the 56 municipal programs in effect at that time, only one had income limits which restricted its use to low and moderate income people. Similarly, the conversion of older apartment buildings in potentially fashionable neighborhoods presently occupied by lower income people is a common part of this scheme.

Like most mortgage bond programs, all the loans were made through commercial banks and savings and loan associations, which are all covered under the CRA, or through mortgage banking firms (which are virtually all certified by HUD and which could be regulated by the Federal Trade Commission.

Mortgage bankers originate most FHA and VA insured or guaranteed loans, and are increasing their role in the conventional lending market. They are not depository institutions and are not covered by the CRA. They get their funds by borrowing on lines of credit. They make money by originating mortgage loans, selling them to investors, and charging a fee to service these loans. The mortgage banking industry has a history of abuses in mortgage lending which accounted for most of the FHA scandals in the early 1970's in Detroit, Chicago, New York and several other cities. Mortgage Bankers are very active in tax exempt

mortgage bond programs. Any attempt to control the abuses of lenders under these programs must include mortgage bankers. They can be regulated through the process HUD uses to certify them for FHA loans and they can be more generally regulated under the authority of the Federal Trade Commission.

The St. Paul ad shows that this "homebuyer's extravaganza" was sponsored by the City, the developers, and several banks. Without the support of the program by the lenders, the City could not have exploited the market as it did. Under their CRA obligations, lenders could choose not to participate. In fact, two of the largest savings and loans did not participate in the condominium development loans. A representative of one, Midwest Federal, stated that this was because they felt the program was not in the best interests of the residents of the community where so many condominium developments were located.

Thus, we have an example of the way tax exempt bonding can be abused, and an example of how some lenders helped make it happen while others acted to protect the interests of lower income peoples in the community.

#### B. Savings and Loan Service Corporations and Condo Conversion

In Minneapolis, we have a fine example of how another major resource can be abused. Savings and Loan associations are allowed to form service corporations with a small portion of their assets (until recently this was just 1%). Although this represents a small part of their assets, in recent years most of the profits of many of the large savings and loans have come entirely from the service corporation. Under the service corporation, lenders

are allowed to set up subsidiaries engaged in the buying, selling, development and management of real estate and lending. Thus, they can actually buy, develop and sell real property. For those with good skills, this has been a very lucrative enterprise.

With the powers of a service corporation, savings and loans could be an extremely valuable partner for local non-profit housing developers and community groups seeking ways to produce affordable housing. With their real estate expertise, their powers to purchase, rehab and sell properties, these service corporations can bring an expertise and efficiency to partnerships with non-profit housing groups, community organizations, and local governments. But the powers of the service corporation can also create the very problems these community groups and local governments are trying to solve. This was the case with Twin City Federal Savings and Loan, the largest home lender in the state of Minnesota.

In 1979, Twin City Federal's Service Corporation made a deal with three of the partners who owned four apartment buildings in an inner city neighborhood in Minneapolis. They formed a new partnership which purchased the buildings from the other owners, and converted them to condominiums. In about five months time, they purchased the buildings, made minor improvements, and resold them as condominiums, at a final total price of about twice what they paid for the buildings. Legal records indicate that they made about \$1.5 million on the total deal. While the largest of these buildings was across the street from a well-equipped park, and while there were families with children in the building

at the time of conversion, none of the units in any of the four buildings were sold to families with children. In fact, only eight of the 108 units were even sold to couples. Thus, 93% of the units were sold to single individuals. In all, over 90% of the original renters were displaced because they would not or could not buy into this shoddy deal.

The buildings were specifically marketed to young professionals, as is indicated in the newspaper ads for the condos which read in part "If you're one of the many young Twin Citians who enjoy the good life .... You'll find that you have a lot in common with your new neighbors, young professionals who enjoy worry-free condominium living...."

Brochures showed the alleged cost savings of owning over renting. But my own calculations and those of one of my graduate students show that these brochures failed to allow renters the standard deduction and understated the renters tax credit allowed in Minnesota. The result is that rather than reaping big savings for buying the condominium, people in the income range they were marketing to, actually would be slightly better off continuing to rent. (See Exhibit B)

This case might be sufficiently outrageous as it is, but there is one more point. Twin City Federal provided for the final mortgage loans in its condominiums by using 75% of the loans it had committed to make under a Minneapolis tax exempt mortgage bond program. In this case, Minneapolis, unlike the City of St. Paul, really wanted the mortgage bond program to serve middle and lower income people. This program, the Home Ownership

Program IV (HOP IV for short), is specifically listed in the City's Housing Assistance Plan to provide 300 units of housing for large low and moderate income families.

The city also wanted to use some of the funds to help tenants convert their buildings into condominiums to avoid displacement, and provide ownership opportunities for these renters. Because lenders had convinced the City that they had so little experience with condo conversions and the market in Minneapolis was so uncertain, the City set up a special Apartment Home Ownership Team to assist in these conversions, primarily for the tenants.

In Minneapolis, the culture is very civil and the state is known for clean government and corporate responsibility. Therefore, to avoid useless regulation and red tape, the City did not develop required goals for the HOP IV program but counted on the good intentions and close working relationships with lenders to communicate and implement their goals.

Twin City Federal's use of this program was a sting operation where the City was the Pigeon. With no regulations to fall back on, the City had to approve TCF's condo projects, which were technically legal. By using mortgage funds at 8% in a market where interest rates climbed to 11%, TCF virtually guaranteed themselves an advantage in the market for their condo's. Thus their program of conversion and displacement was fueled by city tax exempt bonds. However, due to lender's like TCF using these bonds for condo conversion for young, single, professionals, the program did not produce 300 units of family housing for



large lower income people, but only 12. None of TCF's condo loans provided family housing.

C. The Government Regulatory Agency as Accomplice

Community organizations and several City officials were outraged. How could a lender do this? Looking at the obligations of lenders under the CRA, and looking at the linkage between the CRA and the Housing Assistance Plan, The Minnesota Tenants Union filed a challenge against Twin City Federal under the CRA. The CRA allows for citizens to challenge branching, relocation and merger applications based on a lenders failure to meet CRA obligations. The Tenants Union felt that if any lender had failed to meet those obligations, it was TCF.

So when TCF filed to merge with another savings and loan, the Tenants Union requested and got a hearing (called an oral argument).

At the hearing, the points I have presented in the condo conversion were presented. The member of the City council who had drafted the mortgage bond program and who had produced the City's Housing Assistance Plan testified against TCF, expressing his shock and amazement at their perversion of the programs in order to reap big profits from the conversion process. (See Exhibit C) The director of the Apartment Home Ownership Team submitted a letter stating why so few regulations were developed and how TCF had failed to cooperate in its use of the mortgage bond program. (See Exhibit D) The mayor, ex-Congressman Donald Fraser, submitted a letter indicating how important the issue was. In addition, detailed analysis of TCF's regular mortgage lending

showed that they generally did not loan in lower income neighborhoods, except in condominium projects, four of which they owned. Eighty percent of their inner-city loans were for condominiums.

This was the first CRA challenge submitted to the Federal Home Loan Bank Board in Washington after Section 603 was passed and all the regulatory agencies had been sent a letter from the House Banking Committee asking how they would implement this sense of Congress resolution. It was the only challenge which specifically charged a lender with displacement in condo conversions and with perverting the intent of a City's housing programs.

While the FHLBB had agreed in both July and August that it would not render a decision on a CRA challenge without some discussion for people to review, on January 16, 1981, at an "unscheduled meeting" and without the presense of their Office of Community Investment which normally reviews CRA challenges, the Bank Board approved TCF's application by "notation" - which means without any comment or discussion whatsoever.

Among the range of options available in the case, the Bank Board could have turned down the application, or could have approved it with some condition. These conditions might be as mild as a simple encouragement that the lender pay more attention to CRA obligations. But the application was approved with no comment, no opinion in the case, and no conditions whatsoever. Ironically, no one was more surprised than the other Minneapolis lenders who attended the hearing. Many called to express their amazement at the decision. One lender stated flatly that the decision was a license to kill as far as condo conversions and

displacement is concerned.

The decision was consistent with the Bank Board's position that Section 603(c) is not a law and that they will not apply it to CRA obligations. However, their lack of any discussion for the minutes is a violation of specific pledges made to the public by the Chairman of the Bank Board in August. Unlike the other regulatory agencies, the Bank Board is the only agency which never renders an opinion when they review an application. Minutes of the discussion of the case in the meetings are, therefore, the only records of the Bank Board's views.

D. What does the Future Hold

Last year, Congress passed a law regulating the uses of tax exempt mortgage bonds (H.R. 5741). But there are exemptions from the limitations placed on the use of these mortgages. The exemptions apply in targeted areas and in cases where rehab accounts for more than 25% of the total housing cost. These exemptions are almost identical to the provisions of the law under which the City of St. Paul sold its bonds which served higher income people, condo conversions, and displacement. The federal law allows for the sale of more than \$10 billion in these tax exempt mortgage bonds.

This is a low bonding limit when considering the need for housing low and moderate income people, but a large limit to be subject to these exceptions and abuses.

Secondly, while I have no statistical data on the number of condo conversions involving a service corporation as a partner, the industry people I have checked with in several parts of the

country, inform me that this is a common practice which will grow as the Bank Board allows savings and loans to invest more of their assets in service corporation activities.

But ultimately, if the regulatory agencies enforced the Community Reinvestment Act forcefully, and lenders then refused to participate in the exploitation of either mortgage bonds or service corporation activities, little or no further effort may be needed, and these two resources would be freed for creative uses in meeting, not defeating, the housing demand for middle and lower income people who are now harmed so much by the growing condominium conversion process. When combined with efforts to bring all lenders under CRA controls, and when combined with efforts to eliminate speculation in the conversion market, condominium conversion could well hold promises of a better life to the people it now threatens.

Exhibit A

9% ASSUMABLE MORTGAGES  
WITH ONLY 5% DOWN!  
JUST 4 MORE WEEKS

23 MILLION  
MUST BE  
LOANED OUT!

Great  
Selection of  
Heavenly Homes  
&  
Neighborhoods

Minneapolis Tribune  
August 16, 1980

St. Paul's  
LAST-CHANCE  
(NEVER-AGAIN)  
MARVELOUS-MORTGAGE-DEAL  
& RESTORATION-REVUE!

Just  
Minutes to  
Downtown  
Mpls!

Suddenly, St. Paul is "where it's at" for homebuyers! Especially if you wish the missing amenities of historic neighborhoods...and the charm of restoration homes that come with distinctive character and graceful elegance — creating a lifestyle that's uniquely your own. St. Paul has money! Low interest. Low down. Could mean \$25,000 to \$100,000 less outlay over the life of a mortgage! Helps people who may have thought they couldn't buy now...helps everyone buy more for their money! Mortgages are assumable (means future re-sale easier). There's \$23 million — but it must be committed by Sept. 15. St. Paul has money! Hundreds of units, condos, townhomes, single-family. Many sizes and styles, terrific custom-design opportunities. Delightful restorations of homes, mansions, public buildings, walk-ups — the creative work of hundreds of dedicated craftsmen and skilled craftspeople. Values from \$29,000 to \$225,000. St. Paul has an extraordinary! The Last-Chance (Never-Again) Marvelous-Mortgage-Deal & Restoration-Revue! Come out, come learn. Tour exquisitely decorated models, talk to designers about their plans. Open house hours have been extended. But hurry! This is one homebuying opportunity you can't afford to miss!

Special treat for home buyers...a nifty Restoration-Revue tour!

**Capital**  
\$29,000 to \$125,000.  
• 1/2 to 1 1/2 acre, 3 to 4 bedrooms, 2 to 3 bathrooms, 2 to 3 car garages.  
• Fully finished basements, hardwood floors, central air conditioning.  
• Professional garden, swimming pool, tennis court, etc.  
• Open Sun. & Mon. 1 to 4 PM, Sat. 10 to 3 PM, and by appointment.

**THE DELINA CONDOMINIUM**  
• 2nd Floor, 10 units, 1 to 2 bedrooms, 1 to 2 bathrooms, 1 to 2 car garages.  
• Fully finished basements, hardwood floors, central air conditioning.  
• Professional garden, swimming pool, tennis court, etc.  
• Open Sun. & Mon. 1 to 4 PM, Sat. 10 to 3 PM, and by appointment.

**THE BRIDGE HOUSE RESIDENCE**  
• 2nd Floor, 10 units, 1 to 2 bedrooms, 1 to 2 bathrooms, 1 to 2 car garages.  
• Fully finished basements, hardwood floors, central air conditioning.  
• Professional garden, swimming pool, tennis court, etc.  
• Open Sun. & Mon. 1 to 4 PM, Sat. 10 to 3 PM, and by appointment.

**MAISON D'OR TOWNHOMES**  
• 2nd Floor, 10 units, 1 to 2 bedrooms, 1 to 2 bathrooms, 1 to 2 car garages.  
• Fully finished basements, hardwood floors, central air conditioning.  
• Professional garden, swimming pool, tennis court, etc.  
• Open Sun. & Mon. 1 to 4 PM, Sat. 10 to 3 PM, and by appointment.

**Other sponsors of this homebuyers' extravaganza:**

American National Bank & Trust Company  
663 University Avenue  
St. Paul, Minn. 55104

Northwestern National Bank of St. Paul  
55 East 7th Street  
St. Paul, Minn. 55101

Quincy State Bank of St. Paul  
2425 West Seventh Street  
St. Paul, Minn. 55116

First Bank Grand  
1071 Grand Avenue  
St. Paul, Minn. 55103

Costs Involved in Condominium Ownership Versus Renting: (for a single individual with an income of \$16,500  
Harriet Place Condominium  
2616 South Harriet Avenue  
Minneapolis

Costs for a one bedroom unit priced at 27,500, with a 5% downpayment, and a 29-year mortgage at 5% (from the Minneapolis HOP IV city bond program).

	Comparison as Presented by the Real Developer*		Actual Costs**	
	OWN	RENT	OWN	RENT
Monthly <sup>1</sup> Payment	\$287.63	\$237.00	\$287.63	\$237.00
Tax Savings Due to Owning <sup>2</sup> Versus renting	(54.42)	—	(23.67)	—
Net Cost/Month After Subtracting Tax Savings of Owning	\$233.21	\$237.00	\$263.96	\$237.00
	Monthly Savings Due to OWNING: \$3.89/Month		Monthly Savings Due to RENTING \$26.96/Month	

\*These figures are based on the data presented by the developer to prospective buyers. See attached copy of developer's presentation. We have changed the figures to correct for errors made by the developer and to reflect a more typical buyer - at a lower income and representing a single person household.

\*\*The developer based his calculations on an assumption that renters have no tax deductions, but that people who own and itemize deductions for taxes and interest payments on the mortgage do have deductions - at a level based on their income bracket. However, renters who do not itemize do get a standard deduction which is quite significant and which we included in our calculations of the actual costs and tax benefits.

<sup>1</sup> For owners this includes payments on the mortgage principle and interest, contents insurance, and the condominium homeowner's fee. For renters this includes rent and contents insurance.

<sup>2</sup> For owners this includes the value of deductions for real estate taxes, interest on the mortgage, and such normal itemized deductions as state and local taxes. For renters this includes only a tax credit for renters in Minnesota (which the developer underestimated) in the developer's presentation. In the actual presentation, this includes the correct renters tax credit and the standard deduction. All figures are expressed on a monthly basis



Comments of Mark Kaplan, from Official Transcript of Oral  
Argument in Minnesota Tenants Union/Twin City Federal CRA  
Challenge - Comments of Dave Raymond, from Tenants Union  
Final Response

Alderman Mark Kaplan  
June 25, 1980

".. we specifically made multi-family dwellings,  
condominiums, eligible under the HOP IV program..."

"... what was in my mind at the time was the concept  
that there were condominiums that existed and that there  
would be people out there wishing to purchase units  
in existing condominiums..."

"Secondly, it was my hope, and I believe it was the  
hope of other members of the Council, that the tenants  
in buildings would be able to gain control of their  
buildings and gain the advantages of home ownership  
by having mortgage money available to them so that  
instead of continuing to be tenants in the building,  
they would be able to purchase a portion of their  
building from the landlord who existed at that time.  
And we specifically set up in the Housing Authority  
a Tenant Ownership Team,\* a team of people who would  
attempt to organize tenants and to work with tenants  
to become home owners in the buildings, either through  
various cooperative programs as we have developed  
over the past couple of years or through the use of  
HOP IV money."

Exhibit C

"Never in my wildest imagination did I imagine that  
any specific lender working with a specific developer  
would take an entire set-aside of money for the purpose  
of taking a building and marketing it to people who  
were not the tenants of the building and taking what  
appears to me to be large profits..."

"I would never have imagined that money would have  
been used for the purpose of creating those large  
profits for the developers in a specific collusion  
with specific lending institutions, and when I first  
heard that that program had been developed of,  
specifically, the four condominiums that have been  
discussed tonight, I was flabbergasted and I really  
felt that the program that we had developed was  
being subverted for profit purposes that I certainly  
had never intended in the development of the program."

\*Alderman Kaplan indicated later that he was referring to  
the Apartment Home Ownership Team.



Exhibit D

Mr. David Raymond\*  
July 7, 1980

"...I was project director of the MHRA's Apartment Home Ownership Team, which was formed to promote the conversion of rental property to cooperative and condominium ownership."

"The HOP IV program was designed primarily for single family homes, but MHRA wanted to use a portion of the \$46 million for condominiums."

"The HOP IV program had fewer rules and regulations than many other government programs, in part responding to criticisms of government 'red tape' and in part due to the fact that MHRA staff was able to work very closely with most of the developers and participating lenders."

"It would be impossible, however, to state that Twin City Federal worked closely with MHRA in planning the four conversion projects(s) or that Twin City Federal kept MHRA fully informed about these conversions."

\*Taken from a letter written to Calvin Bradford and later submitted to the Federal Home Loan Bank of Des Moines as part of the Minnesota Tenants Union final response on July 8, 1980.

Mr. ROSENTHAL. Mr. Hartman.

**STATEMENT OF CHESTER HARTMAN, LEGAL SERVICES ANTI-DISPLACEMENT PROJECT, BERKELEY, CALIF.**

Mr. HARTMAN. Thank you. My name is Chester Hartman. I have just finished a stint as visiting professor of city planning at the University of North Carolina. I am here representing the Legal Services Anti-Displacement Project.

That project is the result of some meetings by Legal Service clients and attorneys at which the problem of displacement generally was identified as their No. 1 concern in the housing area. Over the last year we produced two major documents. One is a report which I have given to Mr. Jacobs for insertion as part of the record.

Mr. ROSENTHAL. Without objection, your full statement together with the report will be part of the record.

Mr. HARTMAN. Thank you, Mr. Rosenthal.

That report is on the extent, causes, and impacts of displacement nationally and is available from us at 2150 Shattuck Ave. No. 300, Berkeley, Calif. 94704.

A second study which we are about to issue is a handbook for community groups on how to fight displacement.

The reason I am here is to try to talk to the condominium conversions displacement issue in the context of some of the larger concerns about displacement and loss of housing stock that we have uncovered in our work.

The report we issued last month estimates that at a minimum some 2½ million Americans are displaced involuntarily from their homes and neighborhoods each year from all causes. This is about twice the official estimate of housing displacement which was put forward in the Census Bureau—HUD Annual Housing Survey. They do not count, and they acknowledge that this is a limitation of their study, some of the major causes of displacement, particularly increases in housing costs.

The significance of this number for the problem you are studying in your hearings is obvious. Persons displaced by condo conversions nationally may number in the tens of thousands, if you discount those who stay in their own units because they have either bought them or are renting from a new investor landlord.

But the competition anyone displaced from the condo conversion process faces for alternative housing must be seen in the context of the broader displacement problem nationally. They are all fighting for the same limited amount of housing. Since condo conversion rates are highest in "hot," local real estate markets, and it is in precisely those localities where many other forms of displacement are rampant, the competition is even fiercer.

I believe the committee must look at the displacement aspects of condo conversion as part of a general national epidemic of displacement. The solutions that you fashion and put forward must speak to all the forms that displacement takes.

The second related concern we have is an issue that has been discussed in this morning's hearing extensively. That is housing inflation generally. I do believe there is a very strong case to be

made that condo conversions are not simply a result of the housing inflation process but are a major contributing cause to that process.

If you are looking at ways of having an impact on housing cost inflation due to condo conversions, I think you have to look at all the causes of housing inflation and look at the problem in terms of housing inflation generally.

The final concern we have is the loss of rental housing units available to middle and lower income households, to which the conversion process is a major contributor. Nationally we lose several hundred thousand rental units every year through abandonment, undermaintenance, arson, accidental fires, demolition, conversion to nonresidential uses, and other cases.

As we have noted, very little new rental housing is being built to replace those units that are lost.

The conversion of 100,000 or a few hundred thousand rental units each year to ownership status adds tremendously to that squeeze, all the more so in those cities where the conversion process has been and is rampant. This squeeze transmits itself down the line to those least able to bear those costs, the elderly, the poor, racial minorities, female-headed households, and large families.

It is not enough merely to compensate those who are displaced by the condo conversion process. We also must act to protect and compensate the rental housing stock and make sure that the kind of real estate speculation involved in the conversion process does not impose terrible costs to the one-third of our Nation who live in rental housing.

What are the implications of this for public policy? I think all levels of government—national, State, and local—must take whatever steps are effective to halt or drastically limit the conversion of rental housing to condominiums. Unless the vacancy rate in the local housing market is sufficiently high—I would put that as at least 5 percent—to permit normal, healthy operations of that market, condo conversions should not be allowed.

Where the vacancy rates are sufficiently healthy to permit conversions, there still should be a local permit board which has the discretion to give or withhold conversion permits depending on the public policy considerations specific to each individual application.

The third principle is, even with those protections, conversion should be allowed only when the vast majority of the building's present tenants actually intend to purchase their units. I would make a distinction between approval and intent to purchase. Approval is something that can be and is very easily bought with a few hundred dollar payment to a tenant.

Another principle is that any existing tenants in a building being converted who don't want to purchase their units must be given secure tenure, with controls on rent increases, for as long as they wish to stay.

It has been put forward that that principle might be applied only to elderly renters. I believe that is a mistake because if you create a special class of protected tenants with regard to the conversion process, by the same token that makes them less desirable tenants to begin with.

If the elderly are protected with lifetime leases, we will find discrimination against the elderly on whether they will get that

apartment in the first place. Those kinds of protections should be available to everyone who lives in the building at the time of the conversion.

If I understood Professor Masotti correctly, he suggested that those kinds of lifetime leases should be a moral obligation but not a legal one. He even doubted whether there was a legal basis for imposing that requirement. My understanding is that the District of Columbia and New York City already have in law a provision that gives lifetime tenancies to elderly tenants with incomes under a certain level. I think the legal question has been resolved in those two jurisdictions.

As a final principle, any loss to the rental housing stock must be compensated by 1-for-1 housing replacement, to be provided by the converter.

More generally, we have to use the insights and concerns raised by the condo conversion crisis to deal with the fundamental weaknesses in our housing system. I don't think we can continue to allow housing inflation at its present rate. We cannot accept the situation whereby higher and higher proportions of households have to devote so much of their income to housing that they have insufficient amounts left over for food, clothing, medical care, transportation, and other necessities of life. We cannot allow speculation to shape so basic a social necessity as shelter. We cannot allow developers and landlords to arbitrarily kick people out of their homes simply because they want to make bigger bucks.

It is time we started thinking about housing more as a human right and less as a commodity.

In the 1949 Housing Act, and again in the 1968 Housing Act, this Congress promulgated the national housing goal of "a decent home and suitable living environment for every American family." The truth is that we are moving farther away from this goal, if we consider the increasing gap between income and housing costs, the increasing amount of involuntary displacement, and increasing environmental deterioration.

The condo conversion problem has dramatically brought out the uglier lessons of how the profit system and the national housing goal are antithetical. Congress, State, and local governments all must work, along with community groups, to put forth alternative ways of producing, owning, and managing housing in this country.

Thank you.

Mr. ROSENTHAL. Thank you very, very much.

[Mr. Hartman's prepared statement and report follow:]

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STATEMENT OF CHESTER HARTMAN BEFORE THE COMMERCE, CONSUMER  
AND MONETARY AFFAIRS SUBCOMMITTEE, HOUSE COMMITTEE ON GOV-  
ERNMENT OPERATIONS, MARCH 31, 1981

On behalf of the Legal Services Anti-Displacement Project, we very much welcome the opportunity to testify before your Subcommittee. The conver- sion of a large portion of the nation's rental housing stock into condo- miniums has been of great concern to us, and the need for government ac- tion at all levels to halt or slow down this trend is urgent.

The Legal Services Anti-Displacement Project arose out of a meeting held in 1978 in Silver Spring, Maryland of Legal Services attorneys and clients, to discuss strategies for research and litigation in the housing area. At that meeting, residential displacement was identified as the number one problem for research and action.

As a result, a Legal Services Anti-Displacement Task Force was formed, to coordinate information and act as a communications network for organiza- tions and individuals fighting displacement. And the Research Institute of the Legal Services Corporation funded a three-part research and writing effort, which is just winding up its work. The first product, released in late February, is a report on the extent, causes and impacts of displace- ment nationally and in selected localities. A copy of that report is ap- pendex to this statement, which we hope can be inserted as part of the official hearing transcript. The second part of our work, also completed, is a series of papers for Legal Services attorneys on legal strategies to protect those displaced by private actions and expenditure of Sec. 8 hous-

Advisory Committee:  
Hazel Bonner (South Dakota)  
David Bryson (California)

Jack Cane (Minnesota)  
Perice Chevone (New Jersey)  
Sylvia Cohen (Colorado)

Andrea Ertzman (California)  
Paula Scott (Washington, D.C.)  
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Steve SL. Haire (New Jersey)  
Frances Warner (California)  
Rene Wylie (Pennsylvania)

ing subsidy funds -- activities which cause widespread displacement but which are not covered by the Uniform Relocation Act. And the third part of our work, now in production, is a manual for community groups with the self-explanatory title Displacement: How To Fight It. That guidebook is a result of a year of field work visiting and talking with community groups all over the country, collecting written materials, and evaluating what have been the most effective strategies for combatting displacement. A copy of the table of contents of that manual is appended to my statement, together with information on how to obtain it when it comes back from the printer, in May.

The reason I describe our overall work agenda is because I want to use my limited time before the Subcommittee to place the issue of condo conversions in the broader context of displacement and loss of lower-income housing. In your three days of testimony you will be hearing a great deal, I'm sure, about specific horror stories associated with the condo conversion process: how people have been forced to move and/or forced to pay higher housing costs they can't afford, as well as the emotional trauma of forced moves, all because those who own the rental housing stock find it more profitable to sell these units as individual condominiums, regardless of the economic and psycho-social costs this profiteering imposes on tens of thousands of Americans. It is important that you understand those costs fully. And it also is important that you see this process in the context of other forces at work in the housing market that compound those costs.

Our February, 1981 report Displacement puts forth our informed estimate that some 2 1/2 million Americans, at a minimum, are involuntarily displaced each year from all causes. This is about twice the figure given in the Census Bureau-HUD Annual Housing Survey, which acknowledges that it does not even collect data on some of the leading causes of displacement -- in particular, that triggered by increases in housing costs. Our estimate was based on several detailed city-level studies and the work of nationally recognized housing experts. The significance of this staggering figure for the problem you are dealing with today is obvious: while the number of persons displaced by the condo conversion process nationally may only number in the tens of thousands (when discounting those who stay



either as purchasers of their own units or as renters from a new investor (or landlord), the competition those displacees face for alternative quarters is enormous because of all the other displaced people looking for housing at the same time. And since condo conversion rates are higher in the "hot" real estate markets, and it is precisely those localities where many other forms of displacement are rampant (especially that due to gentrification and increased rents), the competition there is even fiercer. We must look at the displacement aspects of the condo conversion problem as part of the general national epidemic of displacement, and the solutions we fashion must speak to all the forms displacement takes.

A related concern of ours is housing cost inflation generally, for homebuyers, existing homeowners and renters. The nation is on the horns of a dilemma: costs of purchasing new or existing single-family housing have risen so dramatically in recent years that only an estimated 15% of the population can afford the median-priced new home. While the condo conversion surge has many causes, one is that for many households, particularly first-time buyers, it's the cheapest, perhaps the only way to get on the escalator and eventually trade up to ownership of a single-family home. At the same time, the costs of owning one's own home -- whether it be a single-family structure or condo unit -- are rising markedly, related to utility and property tax cost increases, but principally to the inflation in mortgage carrying costs, as inflated, speculative prices combine with unprecedented high interest rates to produce monthly costs that severely tax the family budget. The vast increase in the number of households paying 30%, 40%, 50% and more of their income for housing is a very disturbing phenomenon on the American housing scene.

The virtual cessation of private unsubsidized rental housing construction in the US means that people are having an equally hard time renting as they are buying. Within this context the inflationary spiral for both rental and ownership housing is further fueled by condo conversions. And at the same time, those unlucky enough to live in rental units being converted are forced to become victims of this inflation, as buyers of their units, renters from investor-purchasers, or renters of alternative units.



Again, we cannot adequately respond to these inflationary aspects of the condo conversion problem without dealing at the same time with inflationary pressures that characterize the present housing market generally.

Finally, we are concerned about the loss of rental housing units available to middle- and lower-income households, to which condo conversions are a major contributor. We lose several hundred thousand rental units each year, to abandonment, undermaintenance, arson, accidental fires, demolition, conversion to non-residential uses, and other causes. As noted, very little new rental housing is being built to replace those lost units. The conversion of a few hundred thousand rental units each year to ownership status adds tremendously to that squeeze, all the more so in those cities where the conversion process has been and is rampant. The squeeze transmits itself down the line to those least able to bear the costs: the elderly, the poor, racial minorities, female-headed households, large families. It is not enough merely to compensate those who are displaced by the condo conversion process. We must also act to protect and compensate the rental housing stock, and make sure this kind of real estate speculation does not impose terrible costs on the one-third of our nation who by choice or necessity live in rental housing.

What are the implications of all this for public policy? First, we must take whatever steps are effective to halt or drastically limit the conversion of rental housing units to condominiums. Unless the vacancy rate in the local housing market is sufficiently high -- say, at least 5% -- to permit normal, healthy operations of the real estate market, condo conversions should not be allowed.

Where the vacancy rates are sufficiently healthy to permit conversions, there still should be a local permit board which has the discretion to give or withhold conversion permits depending on public policy considerations specific to each individual application.

Even with these protections, conversion should be allowed only when the vast majority of the building's present occupants actually intend to

purchase their own units -- not just "approve" the conversion, since such "approvals" can be and often are bought with a few hundred dollars.

Any existing tenants in a building being converted who do not want to purchase their units must be given secure tenure, with controls on rent increases, for as long as they wish to stay.

Any loss to the rental housing stock must be compensated by one-for-one replacement housing to be provided by the converter.

More generally, we've got to use the insights and concerns raised by the condo conversion crisis to deal with the fundamental weaknesses in our housing system. We cannot allow housing inflation to continue at its present rate. We cannot accept the situation whereby higher and higher proportions of households have to devote so much of their income to housing that they have insufficient amounts left over for food, clothing, medical care, transportation, and other necessities of life. We cannot allow speculation to shape so basic a social necessity as shelter. We cannot allow developers and landlords to arbitrarily kick people out of their homes simply because they want to make bigger bucks.

It's time we started thinking about housing more as a human right, and less as a commodity. In the 1949 Housing Act, and again in the 1968 Housing Act, this Congress promulgated the National Housing Goal of "a decent home and suitable living environment for every American family". The truth is we are moving farther and farther away from this goal, if the increasing income:housing cost gap, involuntary displacement, and environmental deterioration are taken into account. The condo conversion problem has dramatically brought out the uglier lessons of how the profit system and the National Housing Goal are antithetical. Congress, state and local governments all must work, along with community groups, to put forth alternative ways of producing, owning, and managing housing in this country.

(Available in May, 1981. For ordering information, write the Legal Services Anti-Displacement Project, 2150 Shattuck Ave. #300, Berkeley, CA 94704)

DISPLACEMENT: HOW TO FIGHT IT

An Action Guide for Community Groups and Legal Services Attorneys

- Ch. 1 Overview: "We No More Home"
- Ch. 2 Displacement Doesn't Just Happen.... And It Won't Just Stop
- Ch. 3 Getting and Analysing Displacement Data: San Francisco's Duboce Triangle Housing Alliance
- Ch. 4 Regulating Housing Speculation to Prevent Displacement
- Ch. 5 Preserving Rental Housing I: Combatting Demolition, Arson, and Condo/Coop Conversions
- Ch. 6 Preserving Rental Housing II: Single Room Occupancy Hotels (SROs)
- Ch. 7 Dealing With Disinvestment and Abandonment
- Ch. 8 Resisting Governmental Displacement -- Cutbacks in Urban Services: People's Firehouse #1, Brooklyn, N.Y.
- Ch. 9 Protecting Tenants: Rent/Eviction Controls and Other Law Reforms
- Ch. 10 Preventing Displacement of Homeowners
- Ch. 11 Displacement in HUD and FmHA Housing
- Ch. 12 Displacement Under the Community Development Block Grant Program
- Ch. 13 UDAG: What Is Past Is Prologue
- Ch. 14 Displacement From Housing Rehabilitation
- Ch. 15 The Uniform Relocation Act
- Ch. 16 Beating the Market With Cooperative Housing and Community Land Trusts
- Ch. 17 Organising Citywide Against Displacement: The Seattle Displacement Coalition
- Ch. 18 A Few Further Ideas....
- Ch. 19 Conclusion

# DISPLACEMENT

RICHARD LEGATES

CHESTER HARTMAN

February, 1981

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This report was prepared as part of the Legal Services Anti-Displacement Project. The opinions expressed herein are those of the authors and do not necessarily represent opinions or policy of the Legal Services Corporation or the United States Government.

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## TABLE OF CONTENTS

Summary. . . . .	iv
Introduction. . . . .	1
A. The Legal Services Anti-Displacement Project. . . . .	1
B. The HUD Displacement Report Position on Displacement. . . . .	2
C. Recent Displacement Research: An Overview. . . . .	6
D. The Context: Multi-City Revitalization and Displacement Studies. . . . .	9
E. Methodology . . . . .	13
I. The Magnitude of Displacement. . . . .	17
A. Annual Housing Survey (AHS) Baseline Data on Displacement. . . . .	21
B. Types of Displacement Not Included in the AHS Baseline Data . . . . .	22
1. Cost-Induced Displacement. . . . .	22
a. Cost-Induced Displacement in Urban Homesteading Neighborhoods: A Non-Issue . . . . .	24
b. The Seattle Displacement Study: City Level Evidence of Cost-Induced Displacement. . . . .	27
c. Dolbeare's Estimate of Cost-Induced Displacement. . . . .	27
2. Indirect Displacement. . . . .	28
a. Indirect Displacement from Urban Homesteading Neighborhoods: A Non-Issue . . . . .	29
b. The Magnitude of Indirect Displacement. . . . .	30
C. Recent City Level Estimates of the Magnitude of Displacement in Gentrifying Cities . . . . .	31
1. Portland, Oregon . . . . .	32
2. Denver . . . . .	32
3. Seattle. . . . .	32



	ii
D. The Baltimore Study: A Failure to Prove Anything . . .	33
E. The Magnitude of Public Displacement. . . . .	35
F. Summary and Conclusions on the Magnitude of Displacement. . . . .	37
II. The Proportion of Moves Which Are Involuntary. . . . .	39
A. The Aggregate AHS Estimate. . . . .	39
B. The Proportion of Involuntary Moves Among Vulnerable Populations. . . . .	40
III. Characteristics of Displacers and Displacees . . . . .	41
A. Characteristics of Inmovers . . . . .	41
1. Prior Location of Inmovers . . . . .	42
2. Age. . . . .	44
3. Race . . . . .	45
4. Income . . . . .	46
5. Family Structure . . . . .	47
6. Occupation/Socioeconomic Status. . . . .	47
7. Summary Profile of Inmovers. . . . .	50
B. Characteristics of Outmovers. . . . .	50
1. Age. . . . .	51
2. Race . . . . .	53
3. Income . . . . .	54
4. Family Structure . . . . .	55
5. Occupation/Socioeconomic Status. . . . .	56
6. Summary: The Broad Range of Displacees. . . . .	57
IV. What Happens to Displacees . . . . .	58
A. The HUD Displacement Report's View of What Happens to Displacees . . . . .	58

B. The Evidence. . . . .	62
1. Location . . . . .	62
2. Shelter Costs and Moving Expenses. . . . .	65
3. Displacee Satisfaction with New Dwelling Unit and Neighborhood . . . . .	67
V. The Nature and Causes of Displacement. . . . .	70
A. The New Displacement. . . . .	70
B. Displacement and Housing Market Pathology . . . . .	72
C. The Causes of Displacement. . . . .	75
D. The Issue of Responsibility . . . . .	78
VI. Displacement and Integration . . . . .	82
A. Does Gentrification Produce Integration?. . . . .	82
B. Are Blacks Being Dispersed by Gentrification? . . . . .	89
C. Issues of Class and Lifestyle Integration.. . . .	96
Summary and Conclusions . . . . .	99
Bibliography. . . . .	104
Appendix: Summary of Recent Displacement Studies . . . . .	114

SUMMARYI. The Magnitude of Displacement

- 2.5 million persons per year is a conservative estimate of the current magnitude of residential displacement, from all causes, in the United States.
- Of these, only some 1.4 million persons (approximately 500,000 households) are displaced by causes identified in Census Bureau-HUD Annual Housing Survey (AHS) data.
- At least as many persons may be displaced annually as a result of rent increases above their ability to pay, a cause of displacement omitted from AHS data.
- Although hard to measure, there is general agreement that indirect displacement beyond AHS-identified and rent increase related displacement is substantial.
- Publicly assisted displacement is a substantial and growing phenomenon, though much of it is not identified as such because it is intertwined with private-sector activities.

II. The Proportion of Involuntary to Total Moves

- The low AHS estimate of the proportion of involuntary to total moves is an irrelevant statistic for comprehending the severity of involuntary displacement.

- The proportion of involuntary to total moves varies widely among income classes, geographical areas, and other characteristics.
- Among vulnerable populations (lower income persons, the elderly, female-headed households, and residents of the desirable gentrifying housing stock), the proportion of involuntary to total moves is substantial.

### III. Characteristics of Displacers and Displacees

- Inmovers to gentrifying neighborhoods are a relatively homogeneous group in terms of prior location, age, race, income, family structure, and occupation:
  - Most inmovers previously resided within the same city.
  - Inmovers are overwhelmingly young adults.
  - Inmovers are overwhelmingly white.
  - Inmovers' incomes are high, well above SMSA medians and far above the incomes of those they displace.
  - Family structure of inmovers tends toward small households, both singles and couples (but without children). Gay households and households composed of unrelated individuals also are common.
  - Inmovers' occupation/socio-economic status tends heavily towards professionals and managers with college or graduate education.

- Outmovers are a much more heterogeneous group, representing a range of ages, races, incomes, occupations, and family types.
- Between roughly 70 and 90 percent of displacees in recent city studies where race is given were white. (The racial composition of the places studied may, however, understate the impact nationally on nonwhite households.) Displacement of Blacks is nonetheless substantial. Gentrification is increasingly affecting Black neighborhoods. Moreover, in three studies of displacement from racially mixed gentrifying neighborhoods, the proportion of Blacks displaced was higher than the proportion of whites.
- Displacees include young and middle-aged adults, children, and a substantial number of elderly.
- Displacees are primarily low- and lower middle-income. Almost one-fifth of displacees in studies which present detailed income data were low- and very low-income persons. Nearly one-fifth of households in another sample were high income (over \$25,000 a year) displacees.
- Displacees include singles and married households, couples with and without children, and non-traditional household arrangements.

- Blue-collar and lower status white-collar workers form the bulk of displacees.

#### IV. What Happens to Displacees?

Displacees--particularly low-income displacees--are difficult to trace. Results from available studies are skewed because they report disproportionately on higher income displacees.

- \* Displacees cluster close to their former residences; many moves are intra-neighborhood, while others cluster near the fringes of the old neighborhood.
- \* 66 to 100 percent of all moves from displacement areas studied occur within the same city; displacees who move out of the city settle mainly in adjacent suburbs. Few moves are to other areas within the same state, another state, or out of the country.
- \* Shelter costs increase. Evidence from three cities suggests modest increases, from two others substantial increases. Increases are particularly severe for low-income renters.
- \* Displacees' attitudes toward their new units vary. A plurality (but not a majority) consider their new unit to be in better physical condition.

- \* Between 35 and 60 percent of displacees in studies which analyzed displacees' satisfaction with their new neighborhood considered their new neighborhood superior, between 8 and 58 percent worse.
- \* Studies which controlled for income found lower satisfaction rates with respect to both unit and neighborhood among lower income displacees.

V. The Nature and Causes of Displacement

- \* Displacement today is a fundamentally different phenomenon from that of the 1950s and 1960s. Displacement was formerly a result primarily of identifiable direct government action such as highway and urban renewal projects. Today, displacement is primarily a consequence of private-market actions and mixed public/private projects.
- \* Displacement is structurally linked to an abnormal housing market characterized by massive cost increases, rent increases above real income, and massive increases in condominium conversions.
- \* Displacement is caused by such "push" factors as rent increases, condominium and other conversions, demolitions, and "pull" factors operating on in-movers such as attraction to architecturally attractive units,



lower housing costs, locational centrality, and neighborhood charm.

#### VI. Displacement and Integration

- Displacement is producing tension and sporadic violence among different races, classes, and lifestyle groups.
- Revitalization has not produced racial integration in cities for which empirical evidence is available:
  - Black populations of four District of Columbia neighborhoods were virtually replaced during white "reinvansion."
  - Minorities in Boston's South End were pushed to the fringes of the gentrifying neighborhood or into segregated enclaves.
  - In Philadelphia's gentrifying Fairmount neighborhood, white ethnic street gangs and newcomers have made common cause to exclude Blacks.
  - A majority of white immovers to gentrifying New Orleans neighborhoods expect their neighborhoods will be all or virtually all white within five years and oppose housing policies which will retain racial and economic mix.

INTRODUCTIONA. The Legal Services Anti-Displacement Project

This report on the nature and extent of involuntary displacement in the United States has been prepared as part of the Legal Services Anti-Displacement Project.\*

The Legal Services Anti-Displacement Project grew out of concerns expressed by the Legal Services client community. In dozens of communities across the country during the late 1970s this group began to see persons displaced from their homes in ever increasing numbers, frequently as a result of revitalization of inner-city neighborhoods, often assisted with federal funds. At a national meeting of Legal Services attorneys and their clients in Silver Spring, Maryland, in November, 1977, displacement was identified by the clients as their number one priority concern for national level research and coordinated action. Subsequently a national Legal Services Anti-Displacement Task Force was formed, which has expanded rapidly. The present research and writing project, begun in September, 1979, emanated from this grassroots concern.

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\*The Legal Services Anti-Displacement Project is located at 2150 Shattuck Avenue, Suite 300, Berkeley, California 94704. The project has produced a bibliography of displacement materials and information packets on selected displacement issues. In addition to this report, a Community Action Guide, Displacement: How to Fight It, is scheduled for publication in early 1981.

The primary purpose of this report is to serve the needs of Legal Services attorneys and their clients by assembling and analyzing evidence concerning displacement nationally.

A second purpose is to examine critically the Displacement Report of the United States Department of Housing and Urban Development (HUD, 1979a). The Displacement Report is important as an official statement of the federal government's understanding of the displacement issue. As developed more fully below, the conclusions of our report are in almost total opposition to the HUD view that displacement is a small, common and continual phenomenon which seldom presents major problems for displacees and is sometimes beneficial.

B. The HUD Displacement Report Position on Displacement

HUD's Displacement Report has ten connected arguments:

1. Few involuntary displacements are occurring;
2. Proportionally few of all household moves are involuntary;
3. Displacement is a common, continual market process, not a new problem;
4. Private displacement accounts for most (four-fifths of all) displacement;
5. There is little government can do about private displacement;

6. A small and shrinking number of persons are publicly displaced;
7. Persons displaced by public action are well taken care of by existing relocation services;
8. Displacees find comparable housing and are not hurt by displacement;
9. Positive effects of revitalization cannot be accomplished without displacement and outweigh any harm done by displacement;
10. Revitalization provides an opportunity for racial integration of gentrifying neighborhoods.

There are various signs of different perceptions and greater sensitivity. First, a second volume of the HUD Displacement Report, which describes how HUD intends to minimize involuntary displacement and offers the Department's recommendations for the formulation of a national policy on displacement, contains a softening of tone and shift in emphasis [HUD, 1979c]. This second volume, titled Final Report on Housing Displacement\*, states that HUD "recognizes that displacement is a very serious problem in areas of our major cities, and creates hardships for those who are affected" (p. 1), and that displacement is "especially difficult for lower income families" (p. 2). The

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\*The title, Final Report on Housing Displacement, is somewhat confusing. Congress required HUD to report to it on both (a) the nature and extent of housing displacement, and (b) a course of action to address the problem.

Final Report on Housing Displacement does not replace the basic findings on displacement in the first report, which continues to stand as HUD's statement on the magnitude and seriousness of the displacement problem.

Second, an important letter, dated April 29, 1980, from Assistant Secretary for Community Planning and Development Robert Embry to the mayors of all cities over 50,000 population and to HUD field personnel, states that displacement of low- and moderate-income and minority persons is assuming increasing importance as cities revitalize their older neighborhoods; affirms that revitalization must not take place at the expense of low-income and minority households; states that action cannot be postponed until definitive studies appear; and calls on the cities to address the problem of displacement of low- and moderate-income households in a way which makes sense locally [Embry, 1980]. CPD is developing regulations regarding local anti-displacement strategies in the CDBG program, and has funded the National Urban Coalition to carry out an anti-displacement strategies project, providing technical assistance to four cities to show how local governments can develop local anti-displacement efforts.

Third, HUD's Office of Neighborhoods, Voluntary Associations, and Consumer Protection has worked actively to minimize displacement in revitalization efforts, and in various writings and actions has evidenced a greater concern and sensitivity to displacement than implied in the official HUD Displacement Report [see, e.g., Kollias, 1978].

In summary, in their writings, regulations and actions a number of the operating divisions within HUD are taking positions and actions at variance with the official departmental report minimizing the significance of the issue. Theory and practice diverge. In this context a reanalysis and supplementation of the material upon which the HUD Displacement Report is based is particularly relevant.

Our independent reanalysis of the material in the HUD Displacement Report concludes that HUD drew incorrect or incomplete conclusions from the material upon which it based its report. The HUD Displacement Report is systematically biased to understate both the extent and seriousness of displacement. In addition to reanalyzing material in the HUD Displacement Report, our report provides a supplementary analysis of additional material on displacement. Much of this material is very recent, completed or compiled in the year and a half since release of the HUD Displacement Report. Some of the new material presented was available at the time the HUD Displacement Report was written, but was not discussed in it. The cumulative weight of both the reanalysis and the additional material overwhelmingly contradicts the picture of displacement drawn in the HUD Displacement Report in almost every respect.

We think correction of the HUD stance at this point is particularly important, since the Department will shortly be required to submit another report on this subject to Congress.

The 1980 Housing and Community Development Act (Sec. 105b) directs HUD to follow up on Sec. 902 of the 1978 Housing and Community Development Act (which was the origin of HUD's two 1979 reports) and submit to Congress by March 31, 1981, a report to include: 1) all data collected since the earlier reports; and 2) recommendations on minimizing displacement and alleviating problems caused by such displacement. We hope that HUD, in its Carter Administration and Reagan Administration incarnations, both of which will be playing a role in preparing this report due to its timing, will heed carefully the materials and views contained in our report.

#### C. Recent Displacement Research: An Overview

Displacement studies undertaken since 1977 have been done by government, academics (both faculty and students), neighborhood groups, and national associations.

The greatest amount of (and most well funded) research on displacement has been undertaken by government. Most displacement research is funded by HUD, some by the Federal National Mortgage Association (FNMA), and some by local governments.

HUD has allocated approximately \$1 million to displacement-related research, principally through the HUD Office of Policy Development and Research (PDR). Two major studies currently underway are examining displacement in (a) twelve neighborhoods in six cities (being carried out by the Research Triangle



Institute), and (b) one neighborhood, San Francisco's Hayes Valley (being carried out by the National Institute for Advanced Studies). Displacement issues have also been addressed as part of a multi-year study of urban homesteading neighborhoods [Schnare, 1979] and PDR's basic research on Black suburbanization [Nelson, 1979]. In addition, HUD has funded an eighteen-city "reconnaissance" study [Grier and Grier, 1978] and several smaller displacement studies of three neighborhoods in Baltimore [Goodman and Weissbrod, 1979], of one District of Columbia Census Tract [Collier et al., 1979], of five Midwest cities [Berndt, 1978] and a six-city study of displacement utilizing the Panel Study of Income Dynamics under the direction of Sandra Newman and Michael Owen of the University of Michigan. Additional information on displacement may grow out of HUD innovative and demonstration projects related to displacement that are not specifically research oriented.\* FNMA has conducted displacement research in St. Louis [Hu, 1979].

Local governments have conducted research on displacement both through their own staffs and through outside consultants. Recent studies of displacement undertaken by local governments include Baltimore [Callan, 1979], Denver [Flahive and Gordon, 1979], the District of Columbia [Development Economics Group,

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\*Eleven awards were made to cities from the HUD Secretary's CDBG discretionary fund to develop programs to mitigate displacement effects; four additional grants have been made from HUD's Office of Community Planning and Development to consultants to work with cities in developing anti-displacement strategies for their CDBG programs.

1977], Portland, Oregon [Portland, 1978], and Seattle [Seattle, 1979].

As numerous as the government studies have been academic research projects on displacement. Seven theses completed in the last three years contain empirical studies of displacement: in Boston [Pattison, 1977; Seifel, 1979], Cambridge, Massachusetts [Pattison, 1977], Cincinnati [Sieverding, 1979], New Orleans [Rosenberg, 1977], Seattle [Leach, 1979], and St. Paul [Sands, 1979]. Professors of city planning, geography, and economics have also examined displacement issues. Recent empirical research on displacement in Baltimore [Goodman and Weissbrod, 1979], and New Orleans [Laska and Spain, 1979; Laska, Seaman and McSeveney, 1980] have been completed. In addition to city and neighborhood level studies, academics have produced three multi-city studies of revitalization and, by implication, displacement [Black, 1975; Lipton, 1977; and Henig, 1980]. Richard Nathan of Princeton University's Woodrow Wilson School is undertaking a six-city displacement survey with private foundation support.

Neighborhood organizations have been active in displacement organizing and service delivery work. While few neighborhood groups have had the time or resources to carry out sustained studies, their first-hand experience proved a treasure trove of information during the course of our research, and the insights of community groups are reported throughout this report. A detailed empirical study of displacement in San Francisco's

Duboce Triangle area has been completed by the head of the neighborhood's housing association [Park, 1979].

The Ford Foundation has funded George and Eunice Grier to undertake a follow up to their displacement reconnaissance, which should be completed during early 1981.

Finally, three umbrella organizations that work closely with many affiliated neighborhood groups nationally--the National Urban Coalition, the Legal Services Community Development Task Force, and the National Association of Neighborhoods--have made displacement research a priority item. All three organizations have produced multi-city displacement studies [National Urban Coalition, 1977; National Urban Coalition, 1980; National Association of Neighborhoods, 1979a; Legal Services Community Development Task Force, 1980].

#### D. The Context: Multi-City Revitalization and Displacement Studies

There have been a number of multi-city studies of the context in which displacement is taking place, focusing either on revitalization, gentrification, or specifically on displacement. Eight surveys have contributed greatly to an understanding of the overall situation. In general, these multi-city surveys have concluded that disinvestment and abandonment are still a more significant issue and source of displacement than revitalization, but that significant private market displacement began in

the early 1970s and has proceeded apace since that time; that within cities revitalization and gentrification affect only selected neighborhoods; and that simultaneous abandonment and gentrification are frequently occurring in the same city. The studies are not in agreement on the numbers of displacees, but most found a significant and growing number of displacees.

A 1975 survey of the 260 U.S. cities with populations over 50,000 conducted by the Urban Land Institute [Black, 1975] revealed that 48 percent of the cities were experiencing some degree of private market upgrading in older neighborhoods. The author estimated that 54,000 housing units nationwide had been renovated with private funds between 1968 and 1975.

A 1977 analysis of Annual Housing Survey data by Franklin James of the Urban Institute documented dramatic increases in private-market rehabilitation expenditures and rising housing values, particularly in cities with growing populations and limited new construction [James, 1977].

A 1977 survey of 30 cities by Professor Phillip Clay of the MIT Department of Urban Studies and Planning found abandonment still a larger source of displacement than revitalization, but concluded that significant reinvestment was occurring in selected neighborhoods of most large cities [Clay, 1979]. Clay drew a distinction between "incumbent upgrading" where low/moderate-income homeowners were physically improving their owned units without displacement and rehabilitation of absentee-owned units, which was more likely to lead to displacement.

An analysis of 1960 and 1970 Census data for 20 cities published in 1977 by Professor Gregory Lipton of the University of Oregon found three main patterns: cities which showed deteriorating or stagnant cores during the 1960s; another group which showed a decline in the number of tracts with high median family income and educational attainment within the two-mile radius of the Central Business District, but increases in the number of tracts with these characteristics within or directly adjacent to the CBD; and several cities which had strong cores in 1960 and showed further increases in tracts with increasing income and educational attainment [Lipton, 1977]. The author concluded that the centers of the nation's largest cities are not destined for decay, but in fact hold potential as the sites of middle- and upper-income neighborhoods.

A qualitative study of displacement in five Midwestern cities based on site visits and interviews found displacement occurring in many neighborhoods studied in St. Louis, Chicago, Toledo, Detroit, and Cleveland [Berndt, 1978]. Berndt concluded that affordable housing was not available for many of the lowest income displacees in the cities studied.

The "reconnaissance" of displacement in 18 cities conducted by George and Eunice Grier for HUD in 1978 concluded that the total displacement problem appears to be a large and rapidly growing one. The Griers concluded that reinvestment as such, while quite widespread and growing, was probably a minor contributor to the overall displacement problem. The indicators they used suggested that the numbers displaced annually by reinvestment were no higher than the low hundreds for most cities. But they con-

cluded that annual displacement was in the low thousands in the most active displacement cities such as the District of Columbia [Grier and Grier, 1978].

An analysis of Polk data on 967 census tracts in nine cities for the mid- and late 1970s concluded that, while there were few gentrifying cities, there were many gentrifying neighborhoods [Henig, 1980]. Indeed, Henig found gentrification occurring in selected neighborhoods in which citywide trends continued to show net population loss and outmigration of higher status groups. This study concluded that gentrification is occurring in moderately well-off neighborhoods, not the most blighted inner-city ones, but that there are signs that it may be spreading into neighborhoods previously unaffected.

The most thorough and on point of the multi-city displacement studies was conducted by the National Urban Coalition [National Urban Coalition, 1977]. The Coalition sent in-depth surveys to selected "knowledgeables" to analyze patterns in 65 neighborhoods within 44 cities nationwide undergoing some degree of gentrification. The study concluded there was a marked increase in rehabilitation activity beginning in 1969-70, and a second surge of activity beginning approximately 1973-74. Ninety percent of the respondents reported the onset of revitalization within the preceding eight years. The study found the incomes of households moving into neighborhoods undergoing private market rehabilitation to be higher than those of the previous residents, but not radically higher. Professionals and white-collar workers appeared to be displacing blue-collar workers and the unemployed in the cities studied. In the judgment of the

survey respondents, both singles and couples without children as well as families with children appeared to be moving in significant numbers into neighborhoods undergoing rehabilitation. The study noted particularly the high incidence of elderly displacees and increasing homeownership as many renters were being displaced.

#### E. Methodology

Our report is based primarily on analysis of existing displacement research and interviews. In addition, we conducted field visits and interviews with individuals and groups involved in displacement research.

This choice of methodology reflects an important threshold disagreement with HUD. The HUD Displacement Report takes the position that: (a) very little is known about displacement, (b) little or nothing should be done about it pending detailed studies, and (c) very detailed (and expensive) tracking of movement in selected neighborhoods is the best way of understanding displacement.

We disagree. In our judgment the HUD position has led to a misdirection of available research funds, a focus on trees instead of forests (e.g., their funding of the Hayes Valley and twelve neighborhood studies mentioned above) and an unfortunate delay in initiating serious policy making in a clearly problematic area. The situation is reminiscent of the response of HUD and the predecessor agencies during the bulldozer phase of urban



renewal as hundreds of thousands of displacees were hurt. This conflict of views is more fully developed in a recent exchange between one of the present authors [Hartman, 1979] and a spokesman for the HUD position [Sumka, 1979b] in the American Planning Association Journal.

There is now a large displacement literature and hundreds of persons and organizations nationally with detailed knowledge of displacement realities. The present report builds on the premise that these people and the written materials they have produced represent an abundant source of information about displacement. We have been in a position to pull together all of the separate valuable pieces of information and assemble a complete mosaic.

The research process we followed involved the following steps:

1. Basic literature search. Published sources on displacement current through June, 1979, were assembled. An annotated first-stage bibliography of these materials is available [Schur, 1979].

2. Reanalysis of material in the HUD report. Each item in the bibliography of the HUD Displacement Report was reanalyzed. Close re-reading of the material upon which it was based shows frequent errors, omissions, and strained interpretations. Where our reanalysis departs from HUD's we have indicated both positions, the basis for our interpretation, and the source documents upon which our conclusions are based.

3. Collection of new material. We sought all available written material on displacement, including many unpublished and very recent works (some of which were completed subsequent to HUD's preparation of its Displacement Report), in the following way:

a. Solicitation from Legal Services Anti-Displacement Task Force members. The Legal Services Anti-Displacement Task Force consists of more than 150 housing activists (both lawyers and non-lawyers) in virtually every major city in the United States. Task Force members supplied a wealth of recent local material.

b. Solicitation through publications. An announcement of the project and solicitation of material was published in approximately 30 housing and urban development journals and related magazines.

c. Solicitation from academics. Faculty members in city planning and related departments were contacted in approximately 30 cities for recent academic material. This produced a number of just-completed theses.

d. Meetings with displacement experts. The authors met with approximately 40 individuals nationally most involved in displacement and gentrification research who were generous with their time, suggestions, and access to files of relevant material.

Towards the end of the research process the authors conducted site visits in selected cities in every region of the country. We met with neighborhood groups and local displacement experts.

In most cities we walked the gentrifying neighborhoods and supplemented what we had learned in reports and interviews by the sights, sounds, and feel of displacement.

A final bibliography of all materials collected in the study is available on request [Legal Services Anti-Displacement Project, 1980].

### I. THE MAGNITUDE OF DISPLACEMENT

Analysis of the magnitude of displacement has been plagued both by conceptual difficulties and data limitations.

Before attempting to measure the extent of displacement, it is necessary to define what displacement is. There is no universally accepted definition. A serviceable definition advanced by George and Eunice Grier in the HUD Displacement Report has been used in a number of city and neighborhood level studies. HUD did not formally adopt the Grier definition, but does accept that definition as the best so far. The Grier definition is as follows:

Displacement occurs when any household is forced to move from its residence by conditions which affect the dwelling or its immediate surroundings, and which:

1. are beyond the household's reasonable ability to control or prevent;
2. occur despite the household's having met all previously imposed conditions of occupancy; and
3. make continued occupancy by that household impossible, hazardous, or unaffordable. [Grier and Grier, 1978, p. 8.]

Most recent displacement studies share a rough consensus about major forms of displacement and their relative magnitudes, as follows:

First, displacement attributable significantly to private market forces accounts for much more displacement than purely public displacement. It appears that the majority of the

private market displacement occurs as a result of rent increases without physical improvement of the unit, though some is attributable to private market revitalization. Consensus dissolves around the degree to which public action is intertwined with this private action.

Second, it appears that displacement as a result of disinvestment is, or has until very recently been, a more significant cause of displacement than reinvestment-related displacement. Severe undermaintenance such that continued occupancy becomes impossible or hazardous is a more significant source of disinvestment-related displacement than actual abandonment.

Third, the studies stress that displacement consists of a number of quite distinct phenomena in varied market conditions. The Griers have identified 26 separate causes of displacement\* and do not regard their list as exhaustive.

Among the discrete causes of displacement which we encountered in site visits, rent increases unrelated to revitalization were clearly the most important single factor. Revitalization-related

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\*Abandonment, accidental fire, airport construction or expansion, arson, code enforcement (including overcrowding), conversion of rental apartments to condominiums, demolition to make way for new housing, demolition for safety or health reasons, foreclosure, highway or transit construction or expansion, historic area designation, institutional expansion (universities, hospitals, etc.), military base expansion, partition sales, planning and zoning decisions (including decisions still in process which "leak" to real estate industry), natural disaster (flood, hurricane, tornado, earthquake, etc.), public building construction, redlining, rehabilitation (private market),

rent increases are a significant and increasing phenomenon. Even if no physical work is done to the unit before the rent is raised, the increase may be attributed to the rising market associated with revitalization. While most of this activity occurs in the private market, a growing problem is displacement as a result of foreclosure or severe changes in the rent structure of HUD-assisted multifamily projects. As the first generation of public housing projects terminate their original 40-year annual contribution contracts, the danger of displacement from these projects too is increasing.

Disinvestment-related displacement still appears to be a more significant source of displacement than reinvestment-related displacement. Indirect or secondary displacement affects more people than direct displacement. Within the category of public displacement, the CDBG program is probably the most significant displacing federally-aided program. The federal aid highway program is not a major displacer at the present time, though local public works projects such as bridges, civic centers, and parking structures cause substantial displacement. We encountered numerous examples of displacement as a result of institutional expansion. Condominium conversion is a significant and growing phenomenon, and where it is occurring in most cases a majority of pre-conversion renters are displaced. In addition to these sources of displacement and the Griens' list, we found many less traditional forms of displacement: dislocation of artists from live/work loft spaces; displacement as a result of imposition of earthquake safety standards; displacement attributable to "boat

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rehabilitation (publicly aided), renovation of public housing, rising market prices and rents, rising assessments and tax rates, school construction, urban renewal, withdrawal of private services from neighborhood or structure.

people" using their relocation benefits to outbid other renters; and a large number of illegal aliens invisibly displaced by the threat of being reported to the Immigration and Naturalization Service if they did not move.

There are no reliable national data on the extent of displacement. In this vacuum most students of displacement have turned to the Annual Housing Survey (AHS) estimate of displacement. A number of studies cite the AHS figure, but note that the AHS employs a different definition of displacement from conventional ones, and that the level at which AHS data are collected limits the reliability of the data.

Our analysis of the magnitude of displacement accepts the AHS estimate as the best starting point to reach an estimate of the magnitude of displacement nationally. While no one is in a position to make a definitive statement about total displacement from available statistics, our analysis of recurrent neighborhood and city level patterns provides a basis for plausible hypotheses concerning the likely relative magnitudes of various categories of displacement.

Our approach departs from HUD's with respect to two categories of displacement not included in the AHS figure and which in city and neighborhood level studies appear to be particularly significant: price-induced displacement and indirect displacement. If these forms of displacement are added to the AHS baseline estimate, total displacement may be more than double the AHS figure.



#### A. Annual Housing Survey (AHS) Baseline Data on Displacement

The HUD Displacement Report cites the AHS for the proposition that "more than 500,000 households (on the average) [are] displaced each year" [HUD, 1979a, p. 17]. Since average household size was 2.89 persons in 1976 (the year from which the AHS data in the HUD Displacement Report were drawn), but has been declining, the AHS data establish a base of approximately 1.4 million persons a year.\* The AHS may be accepted as accurate and authoritative for the categories it covers.

However, as HUD acknowledges, the AHS figure is not congruent with the definition of displacement advanced by the Griers or other standard definitions. It is both over- and under-inclusive. The 500,000 household figure includes, for example, all evictions, including those in which the tenant simply refused to pay rent. Since such evictions are not ordinarily defined as displacement, the AHS figure is over-inclusive. On the other hand, the AHS figure does not include a move as a result of a disaster, multiple occurrences within the same year, or moves attributed to deteriorated housing or rent increases (some of which result in evictions when the tenant refuses to pay the increase), all moves which under the Grier and other definitions would be considered displacement.

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\*The neighborhood and city level studies showed displacement affecting a mix of household types and sizes. It appears that, with respect to average size, households displaced do not depart dramatically from average U.S. household size. The 1976 estimate of average household size is from William Alonso, "The Population Factor and Urban Structure" (Cambridge: Harvard University Center for Population Studies Working Paper No. 102, 1977).

HUD apparently makes the unwarranted assumption that the elements of over- and under-inclusion in the AHS figure are self-cancelling. In our judgment the figure is almost certainly underinclusive, in view of the very high incidence of displacement as a result of rental increases which is not included. In any event, major additional categories of displacement are (a) cost-induced displacement, and (b) indirect displacement.

#### B. Types of Displacement Not Included in the AHS Baseline Data

City and neighborhood studies reveal that cost-induced and indirect displacement are major phenomena which cannot be assumed away. Both forms of displacement, although not included in AHS data, are acknowledged in the HUD Displacement Report.

Our approach, then, is to start with the AHS displacement figure as a baseline and add to it a plausible estimate of additional displacement from these two major excluded categories. Firm estimates are not possible. Accordingly, we estimate conservatively and express our estimates as a range.

For purposes of policy formulation, precise head counts are not necessary. Nor is excessive quibbling about where precisely to place the line between a move which will or will not be considered displacement. What is important, in order to formulate effective policy, is an appreciation of the nature and dimensions of the phenomena which are occurring.

##### 1. Cost-Induced Displacement

When shelter costs rise beyond ability to pay (that is, when rent increases leave insufficient amounts for food, clothing,

transportation, medical care, and other necessities of life), the household that moves in response to that increase is involuntarily displaced. This is a major source of current displacement, in a market in which rents are rising far more rapidly than consumer income\* and unevenly (by area). Other households, although able to afford a rent increase, who move in direct response to a rent increase they regard as unacceptable, can also be considered displaced.

While the great majority of involuntary displacement affects renters, some homeowners are also displaced. Homeowners may be directly displaced as a result of eminent domain proceedings, or indirectly displaced as a result of rising property values which push real property taxes beyond their ability to pay, code enforcement required repairs beyond their ability to pay, and additional mortgage costs under variable interest rate mortgages which have risen sharply. Homeowners uninformed about current market realities (frequently the elderly who have not traded in the housing market for decades) who sell at what seems to them a huge windfall profit and then find they must resettle in inferior housing and/or neighborhoods they did not really choose may also be said to be effectively displaced.

There are two main reasons why cost-induced displacement

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\*From 1973-77, median rents increased an average of 9.6 percent annually while renter income increased only 5.6 percent annually [U.S. General Accounting Office, 1979]. Accordingly, the absolute numbers and proportions of renters paying in excess of 25 percent or 35 percent of income for their housing have increased.

is difficult to quantify, one conceptual, the other technical. There is no conceptual agreement on "how much is too much"--what level, proportion of income, or amount or proportion of increase over a given time constitutes enough of a jolt that a household should be considered involuntarily displaced. On the technical level, there are no adequate national data to measure such changes on an annual basis. However, macro-level analysis of Census (including AHS) data provides some indication of the probable extent of cost-induced displacement. One systematic study provides good time series data on the magnitude of cost-induced displacement in an entire city [Seattle, 1979]. This study and an analysis of AHS data by Cushing Dolbeare [Dolbeare, 1978] suggest that cost-induced displacement is a very major phenomenon, and that total cost-induced displacement may equal or exceed displacement attributable to the other categories used in the AHS. This is strikingly at variance with HUD's conclusion, based on data from an evaluation of urban homesteading neighborhoods, that cost-induced displacement is not significant.

a. Cost-Induced Displacement in Urban Homesteading Neighborhoods: A Non-Issue. The HUD Displacement Report bases its discussion of cost-induced displacement on a recent HUD-funded study of mobility patterns in urban homesteading neighborhoods [Schnare, 1979]. The Displacement Report quotes the study's finding that "inmoving renters in homesteading neighborhoods have significantly lower incomes than outmovers" (p. 41),

"suggesting," the Displacement Report concludes, "that the neighborhoods are not experiencing price increases which would displace lower-income tenants."

There are two main problems with this treatment of cost-induced displacement. First, the urban homesteading neighborhoods are a very special class of neighborhood. According to the description of the neighborhoods in the Schnare study, and repeated in Appendix D of the HUD Displacement Report, they are mostly low-income, minority areas with modest apartments and homes, not exhibiting signs of vigorous growth. Thus, conclusions drawn from these neighborhoods cannot be generalized to represent wider trends, and most particularly not what is occurring in gentrifying neighborhoods.

The section of the Schnare study from which the quote above was drawn (p. 44) also states:

The average income of out-movers (renters) was considerably higher than the average income of those who stayed. However, when one controlled for various factors that might cause a household to move, low income households were shown to have the highest mobility rates. These controlled mobility rates are more pertinent to displacement, since they enable one to abstract from non-economic factors that might cause a household to move. [Emphasis added.]

Renters in the urban homesteading neighborhoods with annual incomes under \$5,000 who expected a 20 percent increase in rents were almost three times more likely to move than those who expected rents to be stable. In contrast, an expected

increase in rent did not appear to affect the mobility rate of households in the highest income bracket (over \$9,000). According to Schnare, "this finding gives statistical support to the argument that low income households--who are already spending a disproportionate share of their incomes on housing--are much more susceptible to price-induced displacement."

Schnare concludes that her findings suggest "neighborhood revitalization accompanied by rapid increases in housing costs will have a potentially dramatic effect on the mobility rates of low income renters" (p. 39).

Most striking, however, is the fact that the conclusions of the HUD Displacement Report regarding displacement of tenants in homesteading areas directly contradict the conclusions of HUD's own Third Annual Report on the Urban Homesteading Program (published just a few months later), which, while noting that the data are not yet complete or conclusive, states about the same program: ".... the statistics for renters [in the target neighborhoods], specifically low-income renters, does [sic] suggest a pattern of displacement. Mobility rates for this group are significantly higher than comparable national averages." (HUD, 1979b, p. vii)

In summary, micro-level analysis of urban homesteading neighborhoods casts only limited light on the phenomenon of cost-induced displacement. The HUD Displacement Report erred in looking only to this data source in the first place and by misreading the evaluation further confuses the issue. The Schnare study provides limited evidence that cost-induced

displacement is a problem for lower income renters in selected neighborhoods; it certainly does not demonstrate or even imply that cost-induced displacement generally is not a major problem. Macro-level analysis--at the city or national scale and for a more extended time series than in the urban homesteading evaluation--is more helpful in understanding cost-induced displacement. We turn to such studies.

b. The Seattle Displacement Study: City Level Evidence of Cost-Induced Displacement. The Seattle Office of Policy Planning has prepared the most comprehensive city level study of displacement [Seattle, 1979]. As one part of the study, they conducted a systematic survey of a large (1,269 household) stratified sample of the population to determine, among other things, the cause of moves during the five-year period 1973-78. The study concluded that 25 percent of renter moves had been involuntary. And of these moves, 14 percent--more than half--occurred as a result of increases in rent [Seattle, 1979, p. 120], while 11 percent occurred because of changes in the status of the unit. This large, careful time series study is the best available evidence of the extent of cost-induced displacement, and it suggests that this is an enormous issue accounting for more displacement than all the factors listed in the AHS combined.

c. Dolbeare's Estimate of Cost-Induced Displacement. An effort to estimate the magnitude of cost-induced displacement nationally was made by Cushing Dolbeare, a Washington-based housing consultant, in a study for the National Commission on Neighborhoods [Dolbeare, 1978]. Based on an analysis of AHS data, Dolbeare has estimated that between 1970 and 1976 approximately



1.5 million urban households were priced out of the rental market. She hypothesizes that if the number of households which have been forced to move by rent increases were added to the AHS figures, "this [AHS] figure should perhaps be doubled." [Dolbeare, 1978]

In summary, while neither the Seattle nor Dolbeare studies establish conclusively the magnitude of cost-induced displacement, both are clearly superior approaches to the issue than HUD's use of urban homesteading data. The conclusion of both studies that the magnitude of cost-induced displacement is as great or greater than displacement from other causes is consistent with the views expressed to us in many city interviews. If the proportion of cost-induced to total displacement moves nationally is as high as in the most carefully studied city (Seattle), the number would be considerably higher. We believe that 1 - 1.4 million persons is a conservative estimate of the magnitude of cost-induced displacement in the United States each year.

## 2. Indirect Displacement

The AHS figures used in the Displacement Report also do not include what that report calls "indirect" [HUD, 1979a, p. 9] and "secondary" [HUD, 1979a, p. 6] displacement, i.e., displacement "resulting from private action directly or indirectly stimulated by Federal or federally-supported actions in a nearby location ...e.g., upgrading of a neighborhood adjoining an urban renewal site or site of CDBG activity." (p. 42). In Minneapolis, for example, the city's tax exempt housing bond program (indirectly supported by the federal income tax system) has provided funds

which homebuyers have used for purchase of condominiums, as a result of which an estimated 5-600 renters have been displaced.

HUD reports only that the tiny urban homesteading program has not resulted in much indirect or secondary displacement. They do not even address the question of how much indirect displacement has been caused by the remainder of the massive CDBG program.

a. Indirect Displacement from Urban Homesteading Neighborhoods: A Non-Issue. The best HUD-funded study of indirect displacement was done on the program with the least a priori likelihood of causing displacement, at least in its initial phase: the urban homesteading program [Schnare, 1979].\*

The HUD Displacement Report makes much of the fact that there is no evidence of indirect displacement in the urban homesteading program. But to date the number of homestead properties represents only about one percent of all dwellings in the designated homesteading areas [Schnare, 1979]. The Urban Homesteading Demonstration Program had been in operation for less than two years at the time the data were collected for analysis. In short, to look at the urban homesteading program as a program with potential for indirect displacement is to set up a straw. The really relevant issue is indirect displacement as a result of the CDBG program, not urban homesteading. The HUD Displacement Report contains no information on this issue.

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\*This study also confirms the intuitively obvious conclusion about the impact of the urban homesteading program itself on displacement, i.e., that it is essentially nil. Since the program deals only with empty units, the fact that the program has not produced significant direct displacement is no surprise.

b. The Magnitude of Indirect Displacement. Measurement of indirect displacement is shrouded in technical and conceptual difficulties. HUD identifies it as an issue in the Displacement Report [HUD, 1979a, pp. 6, 9]. Informants in the cities we visited said it is happening on a significant scale. But obtaining precise numbers has proven difficult. Perhaps the best existing evidence that indirect displacement is widespread and that cities are doing little or nothing to counter it comes from a recent survey and report to Congress prepared by the Legal Services Community Development Task Force [Legal Services Community Development Task Force, 1980]. The Task Force concluded that indirect (or "leveraged displacement" as they term it) was occurring in approximately half (17 of 35) of the jurisdictions they surveyed in which displacement was occurring. In some of these cities local government had not articulated anti-displacement strategies. Even those cities which had nominal anti-displacement strategies usually did little more than affirm their general intention to foster low- and moderate-income new housing construction; they did not really tailor solutions to the displacement problem as it existed. The Task Force also concluded that HUD has not actively required cities to develop usable anti-displacement strategies. While the survey results are further corroboration of the extent and seriousness of the indirect displacement problem, no attempt was made to assign specific numbers to the extent of such displacement.

In the absence of better information we will not speculate on the number of persons displaced indirectly each year. Instead we underline the seriousness of the issue. Whatever the full

dimensions of the problem, it is clear that inclusion of indirect displacement would further push the estimate of total displacement towards the upper end of the range we estimate.

C. Recent City Level Estimates of the Magnitude of Displacement in Gentrifying Cities

Several recent studies have reached conclusions about the annual level of displacement. The most comprehensive study was undertaken by the Seattle Office of Policy Planning [Seattle, 1979] and considered all displacement, including cost-induced and indirect displacement in the city for the period 1973-78. Other estimates based on systematic analysis of city level data include studies of Portland, Oregon [Portland, 1978], and Denver [Flahive and Gordon, 1979]. These three studies serve to provide good order-of-magnitude estimates of the extent of displacement at the city level.

The HUD Displacement Report takes the position that the number of households displaced annually as a result of revitalization is at the most in the hundreds, even in cities in which the most revitalization is occurring. They describe government displacement as a residual problem and displacement due to revitalization as "a smaller problem than is commonly believed" [HUD, 1979a, p. 21]. These conclusions are based on a reconnaissance of eighteen selected cities conducted during 1977 by George and Eunice Grier which concluded that at most "fewer than one or two

hundred households per year" in each city are likely to be displaced as a result of spontaneous reinvestment. The Grier estimate predates any of the sixteen studies upon which our report is based.

In contrast to the HUD Displacement Report view, our review of recent city level studies indicates that in gentrifying cities the annual magnitude of displacement is well into the thousands.

1. Portland, Oregon. A 1978 report by the city of Portland, Oregon, concluded that approximately 3,000 Portland households (5,000 people) move involuntarily each year. The study concluded also that 1,200 (40 percent) of the total displaced households (approximately 2,000 persons) may be displaced as a result of rehabilitation of central city neighborhoods [Portland, 1978].

2. Denver. A study by the Denver Office of Policy Analysis, Denver Planning Office and others concluded that in 1978 "nearly 2000 households may have had to leave their housing involuntarily" [Flahive and Gordon, 1979, p. 10]. All of these approximately 5,300 persons were involuntarily displaced within the Griers' definition of displacement.

3. Seattle. Between 1973 and 1978, 14,000 households, 7 percent of the total city population, were involuntarily displaced in Seattle, according to a study conducted by the Seattle Office of Policy Planning [Seattle, 1979]. This constituted

20 percent of all moves, or an annual rate of approximately 8,000 persons.

In summary, these city level studies show the magnitude of displacement to be much higher than HUD reports and provide independent confirmation that overall annual displacement in the United States is far greater than depicted by HUD.

D. The Baltimore Study: A Failure to Prove Anything

One other study, of South Baltimore, which attempted to provide information on the magnitude of displacement, is worth mentioning because of the controversy it engendered and its subsequent repudiation by HUD, the study sponsor [Goodman and Weissbrod, 1979].\* The study was vehemently attacked by community groups from the neighborhoods involved and a Johns Hopkins academic.

The central finding of the study that has drawn such fire is a conclusion that there has been little involuntary displacement as a result of revitalization of the South Baltimore study area. The report has been popularly interpreted as asserting that only one to two percent of households in the neighborhood had been displaced each year.

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\*Donna Shalala, the HUD Assistant Secretary for Policy Development and Research who funded the study, blocked HUD publication of the report and stated publicly that in her judgment the report's estimate of displacement was only one-third to one-quarter of likely actual displacement. In a letter to South Baltimore community leaders, she stated: "We share many of your concerns about the technical merits of the report, and it is for this reason that we chose not to release the results of the study".

Six main criticisms have been leveled at the Baltimore report:

Spatially, the study lumps together such a widely differing set of neighborhoods that no meaningful statement about conditions in a gentrifying neighborhood can be made. The study included a heavily gentrified historic district (Federal Hill), a relatively stable area with little turnover of parcels (South Baltimore), and a blitzed low-income Black area (Sharp-Leadenhall). Data from all three areas are aggregated.

Temporally, the study lumps together information for an eight-year time period, despite the fact that most displacement had only occurred in the two-year period preceding the study. This makes meaningful analysis of the rate of displacement during a period of gentrification impossible.

The definition of displacement employed in the study treats as not displaced many categories of people who would be considered displaced under accepted definitions. For example, any household able to relocate in South Baltimore was not considered displaced.

Conflict of interest issues are raised by the fact that the data for the Baltimore report were collected through the good offices of a leading South Baltimore entrepreneur and developer. This individual had a material interest in minimizing the apparent social impact of his operations.



Reliability of the data collected is reduced by the fact that nearly half the households targeted for questioning were excluded from the analysis because nobody was at home or because the properties were vacant or undergoing renovation.

Reliability of the data is further reduced because the researchers tracked the people who moved out in such a peculiar way that the one-third they did find probably under-represent the poorer renters who were forced out and over-represent the homeowners who took their money from rising house values and moved out voluntarily.

In summary, as one urban scholar at Johns Hopkins bluntly stated, "The data that were collected are so full of holes as to be almost worthless" [Harvey, 1979].

## 2. The Magnitude of Public Displacement

According to HUD, the amount of public displacement has declined radically since the early 1970s. The HUD Displacement Report states that "the amount of [federal] and state caused [or assisted] displacement has declined steadily since 1974" (p. 34). In recent testimony HUD Assistant Secretary for Community Planning and Development Robert Embry testified that approximately 13,000 households were displaced and received assistance under the Uniform Relocation Act in 1978, down from 48,000 households in fiscal year 1973 [U.S. Senate, 1980].

Several explanations for the apparent decline in public displacement have been advanced by HUD spokespeople. The HUD Displacement Report attributes the decline largely to replacement of the federal urban renewal program by the CDBG program and a massive decrease in federal-aid highway activity. In testimony to the Senate, HUD Assistant Secretary Embry also noted a greater reluctance on the part of local governments to undertake displacement-causing activities covered by the Act because of increased cost of relocation benefits and broader citizen participation requirements.

A more accurate representation of recent changes in public displacement activity is as follows. Displacement dropped dramatically in the period 1974-76 as the effects of the Nixon administration's moratorium on disbursement of federal housing and urban development funds in 1973-74 worked its way through the federal system. Since that time, displacement triggered by the expenditure of public funds has been increasing and becoming more blended with private displacement. Official HUD figures on the extent of CDBG-related displacement showed virtually none in 1975, 6,870 households displaced in 1976, 10,000 in 1977, 9,655 in 1978 [HUD, 1979a]. According to a recent interview with a HUD official, the 1979 figure is approximately 10,900.

More significant is that, as localities seek to avoid official public displacement covered by the Act, more and more displacement is shifted--pushed "underground" in the words of the Griers [Grier and Grier, 1978]. As Assistant Secretary Embry

noted, "The Community Development Act permits money to be funneled through or lent to or granted to private entities that can displace without the protection of the Uniform Relocation Act. The number of households displaced by these activities is not included in the figures I gave." [U.S. Senate, 1980.] As federal programs increasingly stress mixed public-private projects and leveraging, the boundary lines between public and private action become increasingly blurry. Substantial numbers of displacees who would have been classified as public displacees under conventional urban renewal programs are not counted in the public workload now.

#### F. Summary and Conclusions on the Magnitude of Displacement

The above sections have examined the conceptual and data limitations on accurate national estimates of displacement, described the HUD/AHS baseline estimate of annual displacement, and explained why the annual figure would be much higher if the categories of cost-induced and indirect displacement were included. We have explained why HUD's reliance on urban homesteading data for their views on the magnitude of cost-induced and indirect displacement produced unrealistically low figures for these two important categories. Based on the best city level data, we believe that cost-induced displacement equals or exceeds displacement from the causes identified by the AHS and HUD. We offer a conservative estimate of cost-induced displacement in the range

of 1 - 1.4 million persons per year. For the more problematic area of indirect displacement we can assert with confidence that the number of displacees is large, but because of the absence of data we cannot estimate just how large.

If displacement from the causes identified by the AHS and indirect displacement are added together, likely displacement is in the 2.4 - 2.8 million persons per year range. We believe that indirect displacement is significant enough that it weighs the best estimate of annual displacement towards the upper end of that range. Accordingly, an estimate of 2.5 million persons a year displaced annually in the United States is a conservative estimate of the magnitude of displacement at the present time.

## II. THE PROPORTION OF MOVES WHICH ARE INVOLUNTARY

### A. The Aggregate AHS Estimate

The HUD Displacement Report notes that the United States is "a nation of movers" (p. iii); 20 percent of all U.S. households move each year, and among renters and lower income households the frequency of moves is even higher. Based on AHS data, only 3.8 percent of this coming and going is characterized as involuntary (p. 17). The implied argument is that since proportionally few moves are involuntary, displacement is not much of a problem.

There are three main defects with this position. First, it is the wrong question to ask. Regardless of the number of voluntary moves, the number of involuntary moves may be extremely large and disruptive. The two are simply not logically connected. It may well be that less than 3.8 percent of all examinations for suspected malignant tumors confirm cancer. The fact that more than 96.2 percent of all examinations do not result in a diagnosis of cancer does not cause health officials to discount the seriousness of the U.S. cancer problem. The issue is the same: how large and how serious are the real problems, not what proportion of non-problems do they represent?

Second, by using aggregate AHS data, the report blends together information across all tenure types, incomes, areas, and other variables. All studies of displacement in the last three years have concluded that involuntary displacement of homeowners is not a significant component of all involuntary moves. By aggregating owners and renters, the proportion of renter moves which are involuntary is sharply understated. The AHS national

data indicate involuntary moves for renters at approximately double the 3.8 percent figure. Even more important is spatial disaggregation. Some regions, and many communities, are extremely stable. It is more important for displacement research and policy to focus on critical areas and vulnerable populations.

8. The Proportion of Involuntary Moves Among Vulnerable Populations

Studies which have examined the proportion of involuntary to voluntary moves among vulnerable populations (e.g., low-income renters in gentrifying neighborhoods) have found that a very high proportion of moves are involuntary.

The 1978 study by the City of Seattle [Seattle, 1979], based on a city-wide stratified random sample survey of 1,269 households, found that about 20 percent of all households who moved in the preceding five-year period were involuntarily displaced. For selected vulnerable income groups, the proportions were much higher: 25 percent of all renter households who moved during this period were displaced; 27 percent of all low-income (below \$7,000) households, and 34 percent of all elderly households.

The Washington Urban League conducted a city-wide door-to-door bilingual opinion and information survey of residents of low-income neighborhoods in the District of Columbia to learn what residents perceive as the problems confronting them, and how they would like to see the issues resolved. One finding was that 43 percent of those who had moved in the last two years cited rent increases, evictions, or urban renewal as their reason for moving [Washington, D.C. Urban League, 1979].

### III. CHARACTERISTICS OF DISPLACERS AND DISPLACEDS

Moving from macro-level analysis of the magnitude of displacement, the proportion of all moves which are involuntary, and discussion of the causes of displacement, we turn to analysis of the characteristics of displacers and displaceds.

#### A. Characteristics of Inmovers

Inmovers are easier to locate and interview than outmovers. Accordingly, there is an abundance of evidence on who the in-movers are.

Recent survey data detail characteristics of inmovers in one or more neighborhoods in ten cities: Baltimore [Goodman and Weissbrod, 1979], Boston [Pattison, 1977], Cambridge, Mass. [Pattison, 1977], New Orleans [Laska and Spain, 1979], San Francisco [Park, 1979], Portland, Oregon [Portland, 1978], Seattle [Seattle, 1979], St. Louis [Hu, 1979], St. Paul [Sands, 1979], and Washington, D.C. [Development Economics Group, 1977]. Census, Polk or other data on the characteristics of inmovers have been assembled for three cities: Boston [Seifel, 1979], Cincinnati [Sieverding, 1979], and New Orleans [Munski and O'Loughlin, 1979]. From these thirteen studies a composite picture can be constructed of who the inmovers are.

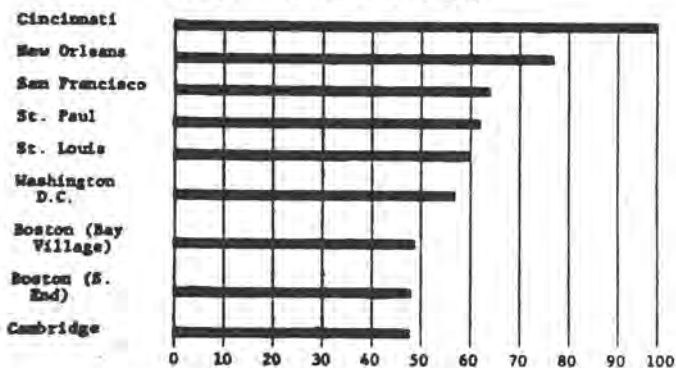


### 1. Prior Location of Inmovers

Most in-movers to gentrifying neighborhoods move from within the city itself, not from surrounding suburbs or other jurisdictions. The average number of in-movers from within the city reported by nine of these neighborhood surveys is 66 percent; the range is from 48-100 percent.

Popular writings on gentrification frequently assume erroneously that in-movers to gentrifying neighborhoods come directly from the suburbs--that a "back-to-the-city" movement is underway. This hypothesis was first refuted in Dennis Gale's pioneering study of Capitol Hill [Gale, 1976], which found a majority of in-movers came from within the District of Columbia. Nine empirical neighborhood studies conducted since Gale's research corroborate his findings:

Figure 1  
Percentage of In-movers to Gentrifying Neighborhoods  
Moving from Within the Same City



Sources: Cincinnati [Sieverding, 1979], New Orleans [Laska and Spain, 1979], San Francisco [Park, 1979], St. Louis [Hu, 1979], St. Paul [Sands, 1979], District of Columbia [Development Economics Group, 1977], Boston (Bay Village) [Pattison, 1977], Boston (South End) [Seifel, 1979], Cambridge [Pattison, 1977].

The most frequent point of origin for persons moving into gentrifying neighborhoods may be from within the neighborhood itself. Only two studies provide data on the number of in-movers who originated within the neighborhood itself, and both found a high number: 33 percent for Cambridge [Pattison, 1977] and 40 percent for New Orleans [Laska and Spain, 1979]. If this pattern is as prevalent elsewhere, the commonly used term "in-mover" may be a somewhat misleading term.

The second most frequent point of origin is other neighborhoods within the city, as indicated by the high number of intra-city moves noted in Figure 1.

Suburbs adjacent to the city accounted for a range of zero percent of in-movers' origin (in Cincinnati [Sieverding, 1979]) to 38 percent (St. Louis [Hu, 1979]), with an average percent of nine. For cities surveyed with one or more nearby cities, such as St. Paul, San Francisco and Boston, movement from other cities within the SMSA was substantial. Movement from elsewhere in the state, and from out of state, accounted for a very small percent of immigration. A small amount of immigration from outside the U.S. was reported for the South End of Boston and for a neighborhood in Cambridge adjacent to Harvard University (probably accounted for by foreign students).

Conrad Weiler has suggested that many persons moving into gentrifying neighborhoods from within a city are actually suburban in their origins, i.e., they grew up in suburbs, but

moved into the city and subsequently moved within the city to the gentrifying neighborhood [Weiler, 1978]. The one survey which obtained information on this question reported that 50 percent of the in-movers to gentrifying neighborhoods in New Orleans had grown up within the city [Laska and Spain, 1979]. A study of in-movers to a gentrifying neighborhood in San Francisco found that 50 percent of the intra-city in-movers had not lived in San Francisco five years earlier [Park, 1979].

## 2. Age

In-movers are disproportionately young adults. There are some elderly in-movers. Significant numbers of children were found in only a few neighborhoods.

The most striking pattern concerning the age of in-movers is the dominance of young adults. Precise percentages are available for three neighborhoods. In Cambridge and Boston neighborhoods, 46 percent and 42 percent of the buyers and 45 percent and 43 percent of the renters, respectively, were in the 25-45 age group [Pattison, 1977]; in St. Paul 43 percent of in-movers were in the 30-39 age group and 21 percent were in the 19-29 age group [Sands, 1979]. A similar pattern is noted, but no precise figures are given, in several additional studies. The primary group of in-movers to condominiums in Washington, D.C. was adults in their early 30s [Development Economics Group, 1977]. In St. Louis most in-movers to 15 neighborhoods studied were in their 20s and 30s [Hu, 1979]. Finally, analysis

of the pre- and post-gentrification age structure of two additional neighborhoods further corroborates the pattern. After experiencing gentrification, Boston's South End and San Francisco's Duboce Triangle saw increases in the 25-34 age group of 12 percent and 15 percent respectively [Seifel, 1979; Park, 1979].

The proportion of elderly and near-elderly moving into gentrifying neighborhoods varied. The sample for St. Paul contained no in-movers over the age of 60 [Sands, 1979]. However, in Washington, D.C., the second and third largest groups of condominium buyers were those over 65 and near-elderly (mid-50s) [Development Economics Group, 1977]. In Baltimore 15 percent of in-movers were over 60 [Goodman and Weissbrod, 1979].

### 3. Race

In-movers are overwhelmingly white. Three studies provided percentages: 90 percent in St. Louis [Hu, 1979], 92 percent in New Orleans [Laska and Spain, 1979], and 97 percent in St. Paul [Sands, 1979]. In-movers to District of Columbia condominiums were described as "virtually all white" [Development Economics Group, 1977]. Most other studies corroborated that in-movers were primarily white, but reported no percentages.

The interplay between class and race is graphically illustrated in Boston's South End. Initially, from 1960 to 1970 the South End lost white population; over 11,000 whites moved out during that decade [Seifel, 1979]. Subsequent to 1970 there has been a net increase of whites moving into the area. Closer

analysis showed that the bulk of the early white outmigration was accounted for by elderly, poor, white roomers; the bulk of the immigration after 1970 has been young, professional, affluent whites. The Black population of the South End declined during both periods. Since 1970 the Hispanic and Asian populations have also declined. (Racial aspects of gentrification and displacement are discussed in greater detail below.)

#### 4. Income

Inmover income is well above city and SMSA medians and much higher than the income of former residents.

Three studies provided precise data on median income of in-movers. Movers into condominiums in the District of Columbia had median 1975 incomes of \$22,700 [Development Economics Group, 1977], in Cincinnati 1978 incomes of \$14,213 [Sieverding, 1979] and in San Francisco, \$12,401 (in 1969 dollars) [Park, 1979].

The three cities for which the most precise ranges of in-mover income were reported are as follows:

New Orleans		Washington, D.C.		St. Paul	
\$ 0 - 19,999	36%	\$ 0 - 10,000	6%	\$ 0 - 5,000	2%
20 - 29,999	24%	10 - 14,999	16%	5 - 9,999	4%
30,000+	40%	15 - 19,999	20%	10 - 14,999	10%
		20 - 24,999	15%	15 - 19,999	24%
		25,000+	42%	20 - 24,999	18%
[Laska and Spain, 1979]		[Development Economics Group, 1977]		25 - 29,999	12%
				30,000+	31%
				[Sands, 1979]	

### 5. Family Structure

There is usually a very high incidence of small households among movers--primarily one- and two-person households, both couples and single individuals.

Movers to District of Columbia condominiums had an average household size of only 1.17; 21 percent of this group was composed of single women [Development Economics Group, 1977]. In St. Louis average family size was 2.65 persons, and 60 percent of the moving families had no dependents [Hu, 1979]. San Francisco's Duboce Triangle had a somewhat unusual pattern, as a significant percentage of the neighborhood's population (estimated as high as 50 percent) is gay. Many gay male households and households with three or more unrelated individuals appeared among movers in this area, and over ten years there was a 35.8 percent decline in families with children [Park, 1979].

The proportion of married and single individuals varies. In two neighborhoods a nearly even balance between married and unmarried households was reported: Boston (Bay Village) [Pattison, 1977] and St. Paul [Sands, 1979]. In one Cincinnati neighborhood there was a preponderance of singles--72 percent [Sieverding, 1979]. In Cambridge and New Orleans neighborhoods a preponderance of married couples was reported--80 and 73 percent respectively [Pattison, 1977, Laska and Spain, 1979].

### 6. Occupation/Socioeconomic Status

Movers tend to be middle and upper class professionals

and managers. In some neighborhoods conventional class analysis is confusing because of alternative lifestyle households.

Professional and managerial occupations are pronounced among in-movers. Fifty-five percent of buyers in a gentrifying Boston neighborhood and 57 percent in Cambridge were professionals [Pattison, 1977]; 75 percent of in-movers in New Orleans were professional or managerial [Laska and Spain, 1979]; 37 percent of in-movers in San Francisco were professionals [Park, 1979]; 50 percent professional and technical in St. Louis [Hu, 1979]; and 45 percent professional and 30 percent managerial in St. Paul [Sands, 1979].

After professional and managerial occupational groups, clerical and sales workers are the next most frequently found categories. In-movers comprise few craftspersons, operatives, or laborers, either skilled or unskilled, except for three Baltimore neighborhoods studied where almost half the in-movers were skilled or unskilled blue collar workers [Goodman and Weissbrod, 1979].

Where levels of educational attainment were reported for in-movers they were, predictably, high. In Seattle 89 percent had B.A.s, 24 percent M.A.s, 26 percent L.L.B., M.D. or M. Arch. degrees [Seattle, 1979]; in St. Louis 74 percent of in-movers over the age of 25 had attended college [Hu, 1979]; in St. Paul 70 percent of the sample had attended college and none reported not having a high school diploma [Sands, 1979]. In Baltimore, however, only 12 percent had completed 16 years of school and 8 percent 17 years [Goodman and Weissbrod, 1979].



Only one study noted a significant incidence of persons not in the labor force or unemployed. Among District of Columbia condominium buyers more than one-third were not in the labor force--the large group of elderly purchasers [Development Economics Group, 1977].

The only study which controlled for tenure found a sharp difference in the occupation/SES of renters as opposed to buyers moving into two gentrifying neighborhoods. In Boston (Bay Village) and Cambridge 55 percent and 52 percent of buyers, respectively, were professionals, but among renters only 22 percent and 34 percent were professionals [Pattison, 1977].

Several studies have noted an influx of persons with specific housing rehabilitation-related occupational skills. One-fourth of all in-movers to the West Cambridge area were architects [Pattison, 1977]! The study of San Francisco's Duboce Triangle also found strong in-movement of house-related craftspeople [Park, 1979].

The San Francisco study is the best example of the way in which alternative lifestyle groups are making conventional class analysis difficult in some gentrifying neighborhoods [Park, 1979]. The study noted a very large increase in self-employed craftspeople during a ten-year period of gentrification. Many of the new residents were white and from middle- or upper-class families, frequently with college educations, who had chosen to work in housing-related blue-collar crafts work. Those who

worked full time had incomes above the lower rungs of the white-collar in-movers; those who worked part time did not. Among this group conventional measures of class--income and status as measured by occupation--become blurry. Similar alternative lifestyle groups are reported in other of the gentrifying neighborhoods.

#### 7. Summary Profile of In-movers

From the above studies of selected characteristics of in-movers to gentrifying areas it is possible to construct a profile of the "typical" in-mover. As noted, there is considerable variation among cities and within in-mover groups in individual cities. Nonetheless the basic pattern is quite striking: the typical household settling within a gentrifying city neighborhood during the 1970s moved from within the same city; was composed of one or two unmarried or married young adults, without children; was white; had one or more members employed in a professional or managerial occupation; and earned an above average income.

#### B. Characteristics of Out-movers

Out-movers are more difficult to locate and interview than in-movers. By definition they have moved away from the area and since they are not concentrated are less easy to track. Moreover, the out-movers who are tracked are likely to represent a skewed sample of high income and higher status households

unless surveys are carefully designed to account for the greater difficulty of tracking lower income, more marginal households.

Nonetheless five recent studies identified samples of outmovers and systematically surveyed them: Baltimore [Goodman and Weissbrod, 1979], District of Columbia [Collier et al., 1979], Seattle [Seattle, 1979], St. Louis [Hu, 1979], and St. Paul [Sands, 1979]. Three other studies have attempted to provide information on the characteristics of outmovers by analyzing demographic characteristics of gentrifying neighborhoods at two or more points in time: Boston [Seifel, 1979], New Orleans [Rosenberg, 1977], and San Francisco [Park, 1979]. Most of the other studies provide pieces of evidence from which something about the likely characteristics of the displacees can be inferred. From these studies a reasonably complete picture of who the displacees are can be constructed.

#### 1. Age

There is a range of ages among displacees, including children, middle-aged and elderly persons as well as young adults. The St. Paul neighborhood level study, which has the finest age breakdown, reported the following spread: 1-18 29 percent, 19-29 14 percent, 30-39 24 percent, 40-49 11 percent, 50-59 nine percent, 60-69 six percent, and 70+ five percent [Sands, 1979]. In Baltimore 45 percent of the displacees were under 35; 40 percent over 35 but under 60; and 15 percent over 60 [Goodman and Weissbrod, 1979].

The studies found a significant number of elderly among the displacees, a particularly important finding in light of the difficult psychological and other life adjustment problems which afflict elderly displacees [Myers, 1978]. The primary group of persons displaced in the District of Columbia condominiumization process were the elderly and the second largest group the near-elderly [Development Economics Group, 1977]. Thirty percent of the displacees in Seattle were reported to be over 61 [Seattle, 1979]. In St. Paul, five percent of displacees were over 70, six percent 60-69, and nine percent 50-59 [Sands, 1979]. Similarly, studies of age structure pre- and post-gentrification show a decrease in the proportion of the elderly population. In Boston's South End there was a 65 percent decrease in the over-65 age group and a 59 percent decrease in the 55-64 age group [Seifel, 1979]. In San Francisco's Duboce Triangle the 45-64 age group declined 20 percent as the neighborhood gentrified [Park, 1979].

There is also evidence that children are frequently among the displacees. Twenty-nine percent of displacees in the St. Paul neighborhood were between the ages of 1-18 [Sands, 1979]. A marked decrease in the number of children in the Duboce Triangle area of San Francisco was reported after gentrification [Park, 1979]. And residents estimated the total number of children living in Boston's Bay Village after gentrification at only six [Pattison, 1977].

## 2. Race

In the studies we reviewed, we found the majority of neighborhoods undergoing gentrification and the majority of displacees were white. However, displacement is also occurring in some neighborhoods which are primarily or substantially minority. There is some evidence that Blacks are disproportionately displaced from racially mixed areas. (It is quite possible too that the neighborhoods and cities that are the subject of these 16 studies understate the impact of displacement on nonwhites, since the studies we found are not a random sampling of gentrifying areas or of U.S. cities with respect to racial composition.)

As one recent comparative analysis of gentrification in nine cities noted: ". . . [B]y and large, gentrification [of central city neighborhoods] is not occurring in the [census] tracts in which the existing literature would lead us to expect it . . . [R]ather than occurring in the core, predominantly poor and minority tracts, [it is] more likely to occur in tracts with fewer vacant units, with more owner-occupied units, and with more professional households already . . . Professional families still [in the 1970s] followed a general principle of avoiding the very neighborhoods they are charged with colonizing." [Henig, 1980]. Since the neighborhoods being gentrified are largely white, it is not surprising that most displacees are white. In the four studies in which surveys of displacees were conducted the percent white was as follows: District of Columbia: 69 percent [Collier et al., 1979], St. Louis: 90 percent [Hu, 1979], Seattle, 92 percent [Seattle, 1979], St. Paul: 93 percent [Sands, 1979]. Most displacees from West Cambridge and Boston's Bay Village were white [Pattison, 1977].

Displacement, however, is reaching some primarily minority neighborhoods, including the District of Columbia's Capitol Hill area, San Francisco's Western Addition area (largely Black) and Mission district (largely Hispanic), and Cincinnati's Over-the-Rhine neighborhood. Two studies document situations in which Black neighborhoods have been reoccupied by whites, in the District of Columbia and Cincinnati [Zeitz, 1979; Sieverding, 1979]. A study concluded that in New Orleans during the 1970's race was a strong predictor of the timing of renovation, with earlier renovation occurring in Black neighborhoods, with other characteristics controlled [Laska, Seaman and McSeveney, 1980, tables 3 and 4].

In a number of the gentrifying neighborhoods which were predominantly white before gentrification began Blacks constituted a substantial subpopulation, e.g., 34 percent in New Orleans neighborhoods\* [Laska and Spain, 1979] and 31 percent in one District of Columbia census tract [Collier et al., 1979]. There is some evidence that in these racially mixed areas Blacks are disproportionately displaced relative to their number as gentrification occurs. This pattern occurred in Boston (South End) [Seifel, 1979], San Francisco [Park, 1979], and Seattle [Leach, 1979].

### 3. Income

Most displacees are lower middle-income persons. However, available studies show a substantial range in the incomes of displaced households from very low to high income.

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\*Historically New Orleans has always had an unusual pattern of whites and Blacks living in the same geographical areas. In many of the older New Orleans neighborhoods whites live in the principal residential structures and Blacks in smaller separate residential units behind them which were once slave quarters.

The most detailed breakdown of displacee income is from a sample for a St. Paul neighborhood: 18 percent less than \$5,000, 23 percent \$5,000-\$9,999, 16 percent \$10,000-\$14,999, 14 percent \$15,000-\$19,999, nine percent \$20,000-\$24,999, seven percent \$25,000-\$29,999, and 12 percent over \$30,000 [Sands, 1979]. For displacees from Washington, D.C., apartments being converted to condominiums median income in 1976 was \$11,875, but there was a large standard deviation: elderly tenants had a median income of \$8,500, working families near retirement, \$25,000, and younger families (30 and under) \$12,000 [Development Economics Group, 1977]. Three-fourths of displacees from the St. Louis neighborhoods had incomes below the 1976 St. Louis median [Hu, 1979]. In Seattle, 26 percent of displacees had incomes below \$7,500; 42 percent between \$7,500 and \$17,500, and 32 percent over \$17,500 [Seattle, 1979].

#### 4. Family Structure

Displacees' family structure also varied more widely than the family structure of in-movers. Several studies documented a substantial mix of family types. Thus, among displacees from two New Orleans neighborhoods were found 32 percent married, 21 percent nuclear families, 31 percent single males, and 23 percent female-headed households [Rosenberg, 1977]. Seattle displacees included 32 percent of households with children and the remaining 68 percent without [Seattle, 1979]. In two Boston neighborhoods independently conducted studies documented large numbers of both families and single room occupancy



households [Pattison, 1977; Seifel, 1979]. And in a District of Columbia census tract 15 percent of the households were families with children and 85 percent were not [Collier et al., 1979]. The only exception to the pattern of quite mixed family types among displacees was the District of Columbia condominium conversion study which found most displacees to be one- and two-person households without children [Development Economics Group, 1977], though this is probably accounted for by the particular nature of the housing stock studied.

#### 5. Occupation/Socioeconomic Status

Displacees are sometimes depicted popularly as uniformly blue-collar workers, and indeed some of the neighborhood studies concluded that the neighborhoods involved were essentially blue-collar ones: Boston (Bay Village) [Pattison, 1977], Cambridge [Pattison, 1977], and Cincinnati [Sieverding, 1979]. However, several studies found lower status members of the white-collar urban workforce in a numerical majority among displacees identified: San Francisco [Park, 1979], St. Louis [Hu, 1979], and St. Paul [Sands, 1979]. Even where they did not constitute a numerical majority, low status white-collar households were present in significant numbers in most gentrifying neighborhoods studied. Thus it appears more accurate to characterize the bulk of displacees as a mixture of blue-collar and lower status white-collar occupations.

There appears to be a considerable range in the occupational and SES composition of gentrifying neighborhoods. Virtually all

studies noted the presence of some low- and very low-income households.

A study of two neighborhoods in New Orleans found 17 percent of the displacees welfare dependent [Rosenberg, 1977]. On the other hand, one study found the largest occupational category of displacees to be professionals--29 percent of the sample [Sands, 1979].

Studies reporting on the years of education completed by household heads show a clustering in the category of high-school graduates, but also show a considerable range of educational level. Since occupation and educational attainment tend to be correlated, this is a consistent finding.

#### 6. Summary: The Broad Range of Displacees

It is not possible to construct a profile of a "typical" displacee in the same way that a typical displacer can be profiled. This section has shown some clustering at the center around blue-collar/lower status white-collar, primarily white, lower middle-income households. However, there are also significant numbers of welfare dependent and higher status white-collar displacees, minorities, and households with very low and quite high incomes. In age and family structure the displacees are even more diverse.

#### IV. WHAT HAPPENS TO DISPLACEDS

After answering the questions of how many people are being displaced, by whom, and what their characteristics are, a very important question is: what happens to the displaceds? Do they find comparable housing easily without negative effects? Or are they injured in the process?

The HUD Displacement Report mentions only two studies of what happens to displaceds. Both studies involve displaceds from relatively well-off neighborhoods--one study of residents of units converted to condominiums in Washington, D.C., and a second study of displaceds from Boston's Bay Village neighborhood. The HUD Displacement Report places particular emphasis on voluntary moves of homeowners who benefited from the gentrification process, whom HUD erroneously labels displaceds. Accordingly, the picture they paint of what happens to displaceds is quite rosy. Recent studies paint quite a different picture.

##### A. The HUD Displacement Report's View of What Happens to Displaceds

The HUD Displacement Report states that "not enough is known about displaced households after their move to determine whether the majority are adversely affected by the change in housing location, or whether they move to better units" (p. iii). It cites in detail only two case studies of the fate of displaceds. One is a study of condominium conversion in

Washington, D.C., cited for the proposition that "these families fared fairly well in their search for replacement housing. By and large, they were able to locate homes of similar cost and size in areas near those they left" (p. 26). HUD also refers to a study of displacees from Boston's Bay Village.

The Washington, D.C., study [Development Economics Group, 1977] is based on 1974 data, obtained in the early phases of the District of Columbia's gentrification process, when the housing market there was much looser than today.

The HUD Displacement Report implies that since most of the District of Columbia displacees found a new unit within a relatively short period of time, this indicates alternative comparable units were available, and that accordingly, displacement did not impose significant hardship on the displacees. The D.C. condominium report itself, though, contains another interpretation. It concluded that "the length of the search period appears to depend on the length of time afforded to carry out the process" (p. 152). Since 20 percent of the displaced tenants were given less than one month's notice, and approximately 60 percent between one and three months, it is not surprising that they found alternative housing relatively quickly: they had to. Since close to 70 percent of respondents who were given one month notice or less considered this amount of time inadequate (p. 151), and 28 percent responded that they consider their new unit worse than the one they had (p. 152), the quick-selection-ergo-satisfaction hypothesis is substantially rebutted.

The HUD Displacement Report concludes that displacement "cannot be assumed to represent a detrimental experience for all those affected" (p. 60) and points to a Boston study's conclusion that some former residents of Bay Village recognized sufficient equity gains to move to another location which they perceived as better, recognizing a "lifelong dream" of moving to the suburbs. This conclusion too is faulty.

The homeowners who chose to move were not displacees under the Griers' or any other accepted definition of displacement. Rather, they were voluntary movers, and thus irrelevant to a displacement study. Homeowners moving from gentrifying neighborhoods will almost always realize substantial equity appreciation in their houses. Instances of homeowners capturing the equity and moving out have been reported not only in Boston, but also in St. Louis and Cincinnati [Hu, 1979; Sieverding, 1979].\*

In any event there were very few homeowners in the Bay Village area. The number of homeowners in gentrifying areas varies, but is seldom a majority. In Bay Village, the author reported "displacement of homeowners does not appear to have been a major characteristic of the upgrading process" [Pattison, 1977]. The bulk of the Pattison study's analysis focuses on

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\*The question of voluntary homeowner move-outs as a result of increased equity raises some difficult policy issues not addressed in the HUD study. The most important relates to timing and who will benefit from the unearned increment due to gentrification. Studies of San Francisco and New Orleans have documented a close correlation in gentrifying areas between increases in the number of real estate transactions and increases in the value

renters, including low-income lodgers, whom he identifies as the essential outmover group, not homeowners.

The only other point the HUD Displacement Report makes about what happens to displacees is that, as documented in a study of the Adams-Morgan neighborhood in Washington, D.C., they frequently relocate nearby. The likelihood such households will soon be displaced again as the gentrification process spreads is thus increased. While other studies note the trauma and expense imposed on displacees subjected to multiple moves, the HUD Displacement Report notes only that it is "interesting" (p. 27) that those now being displaced by revitalization are the same families who in the past were former displacees from urban renewal areas.

HUD focuses on extremely rare examples. Few displacees are homeowners, and of these few will "fulfill a goal" of moving to the suburbs. Those who do so are by and large not displacees. Most studies of neighborhood satisfaction have found that residents' degree of satisfaction with their neighborhood is independent of how its physical condition and social structure are judged by outside professionals [Hartman, 1963]. For the small minority of people who would like to move out of a given neighborhood, the question is not whether they would like to move to some "better" neighborhood in the

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of property [Park, 1979; Minski and O'Loughlin, 1979]. For example, in the Duboce Triangle area of San Francisco between 1968 and 1978, the volume of annual sales increased 700 percent [Park, 1979], while the median value of a housing unit increased 263 percent. The Duboce Triangle study documented a rapid increase in the volume of real estate transactions during the gentrification process, with some units turning over as many as five times in a ten-year period. Another study found that for New Orleans the annual rate of real estate transfers doubled between 1970 and 1978 [Laska, Seaman, and McSeverney, 1980, fn 5]. Many former owners sell out prematurely and fail to realize the value increase in their property due to gentrification. In such cases, it usually is real estate speculators who are the primary beneficiaries.

abstract, but where would they be able to go given the shortage of comparable affordable housing that the gentrification process implies. Condominium conversions such as the one examined in the D.C. study involve moderate-income persons much better able to compete for housing than lower-income displacees, and their displacement experience cannot be taken as representative.

To get a better understanding of what does happen to displacees and the degree to which they are hurt it is necessary to focus on empirical evidence concerning the locations they go to, the condition of their pre- and post-move dwelling units, how satisfied they are with the new dwelling units and neighborhood, the effect of the move on shelter costs, and related measures of impact. Fortunately, local studies shed light on common patterns.

#### B. The Evidence

Nine studies provide information on what happened to displacees from gentrifying neighborhoods and/or a city as a whole: Baltimore [Callan, 1979; Goodman and Weissbrod, 1979], Boston [Seifel, 1979; Pattison, 1977], Washington, D.C. [Development Economics Group, 1977; Collier et al., 1979], Seattle [Seattle, 1979], St. Louis [Hu, 1979], and St. Paul [Sands, 1979].

##### 1. Location

The most striking fact which emerges from the studies with respect to where displacees move is clustering. Many displacees



relocate within the neighborhood, others cluster nearby, and the overwhelming majority relocate within the same city. The pattern of displacees clustering close to the area from which they are displaced has been well documented in two earlier reviews of city and neighborhood level studies of displacement over the past four decades [Hartman, 1964; Hartman, 1971].

Four recent displacement studies document a high incidence of clustering within the neighborhood itself. A 1979 study of welfare displacees from a Baltimore neighborhood found 46 percent of displacees relocated in the same neighborhood [Callan, 1979]. In Boston's South End, many persons displaced from one type of structure or one sub-area of the neighborhood relocated to others within the same neighborhood [Seifel, 1979]. And in the District of Columbia 29 percent of a sample of displacees relocated within the same neighborhood [Collier et al., 1979]. Clustering has also been documented in New Orleans [Rosenberg, 1977]. Micro-level analysis becomes important to an understanding of neighborhood sorting and sifting processes. In the case of the South End, lower income and minority displacees who remained within the South End reconcentrated in different areas. Thus class and racial segregation in the area increased. They also were sifted out by type of unit--frequently moving from privately owned Victorian brick row houses to assisted housing projects.

Other studies are consistent with the finding of the D.C. condominium study that displacees who leave the neighborhood

tend to cluster close to it. The District of Columbia study which found that 29 percent of the sample had relocated within the neighborhood also found that 33 percent relocated adjacent to it [Collier et al., 1979]. Another District of Columbia study found that 42 percent of displacees relocated in adjacent neighborhoods [Development Economics Group, 1977]. Clustering was also described in Baltimore [Callan, 1979; Goodman and Weissbrod, 1979], San Francisco [Park, 1979], and St. Paul [Sands, 1979].

There is some evidence of "leapfrogging." For example, in one Baltimore neighborhood, welfare displacees who did not settle in the neighborhood itself or within a half mile skipped over a band of upper-income housing and then tended to settle in a band just beyond it [Callan, 1979].

This clustering effect raises the important policy question of double (or more) displacement, well-documented in older urban renewal studies [Litchfield, 1961; Hartman, 1964; Hartman, 1971]. Multiple displacement is documented in Washington, D.C. [Development Economics Group, 1977], Cincinnati [Sieverding, 1979], St. Paul [Sands, 1979], and Boston [Seifel, 1979]. Past studies have explored how damaging multiple displacements can be--severing neighborhood ties, disrupting school for children, imposing multiple moving costs, and generally leaving some multiple displacees with the feeling that they are permanent urban nomads.

## 2. Shelter Costs and Moving Expenses

The cost of shelter almost always rises after displacement, sometimes modestly, sometimes quite dramatically. There is evidence that lower-income residents bear particularly heavy rent increase burdens.

Data on pre- and post-displacement rent changes may contain an inherent methodological difficulty, however. Where a household receives a 30-day notice of a rent increase, then takes two to three months to find a new place, paying the higher rent in the interim, a survey which merely asks about rent levels just before and just after moving may severely understate the magnitude of the rent increase problems.

In three cities, post-move shelter costs were reported to have increased only slightly. In Seattle, 87 percent of displacees were reported to be paying  $\pm$  six percent of their former rent, with 12 percent paying over eight percent more [Seattle, 1979]. The overall increase in median monthly shelter payments for displacees from the D.C. units condominiumized was reported to be two percent [Development Economics Group, 1977].\* Portland concludes that rents after a move increased only "somewhat" [Portland, 1978].

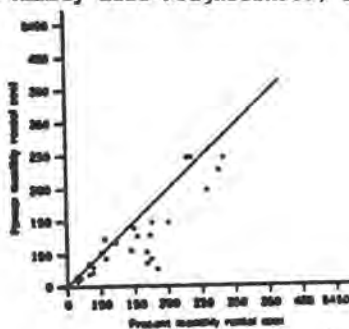
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\*This figures is hard to square with other information in the report that median rent for a replacement one-bedroom unit increased 13.5 percent and for a two-bedroom unit, 13 percent.

Two other studies found substantial post-move increases. In St. Paul post-move costs increased 33 percent [Sands, 1979].\* Baltimore displacees were found to be paying 53 percent more after their moves [Goodman and Weissbrod, 1979].

There is some evidence that lower-income residents bear particularly heavy rent increase burdens. It is known that rent and income levels are highly correlated. The only study which disaggregates information for pre- and post-move renters by rent level was conducted in St. Paul [Sands, 1979]. Sands found that rents increased as indicated:

Figure 2  
Pre- and Post-Move Monthly Rents of Outmovers  
From the Ramsey Hill Neighborhood, St. Paul (n=26)



Source: Sands, 1979.

\*The author hypothesizes that if inflation effects had been removed, it is possible that there would be little or no increase at all for most households. However, if as is likely incomes of displacees did not keep pace with rises in the CPI her hypothesis would not be borne out.

Monthly shelter costs of homeowners or of renters who convert to homeownership also increase, though consideration of tax and appreciation factors make it extremely difficult to assess actual changes or their significance if long-term costs are considered.

The economic impact of displacement on the elderly is analyzed in the Denver study [Flahive and Gordon, 1979], which discusses the public and private costs of relocating 70 elderly persons in a carefully orchestrated operation, with substantial involvement of city social services personnel. The study concluded that not all elderly persons needed social services assistance in moving, but that those who did require help needed a lot [Flahive and Gordon, 1979: Appendix V]. The average cost per person needing assistance was calculated to be \$788.24--shared between the displacee, social service agencies, and the developer. In displacement situations where less assistance is made available than in Denver (in all probability, the usual situation where the Uniform Relocation Act or parallel state protections do not apply), the majority of this real cost is absorbed by the displacee. The Denver report does not try to quantify the additional emotional impacts of displacement on the elderly, but since the elderly displacee frequently has no financial resources for expenses such as first and last month's rent, deposits, moving costs, new telephones, etc., "a move is at the very least an anxiety provoking experience" [Flahive and Gordon, 1979: Appendix V].

### 3. Displacee Satisfaction with New Dwelling Unit and Neighborhood

Five studies asked displacees to compare their pre- and

post-move dwelling units: District of Columbia [Collier et al., 1979; Development Economics Group, 1977], Seattle [Seattle, 1979], St. Louis [Hu, 1979], and St. Paul [Sands, 1979]. All report displacees' subjective assessments, rather than attempting the difficult task of objectively comparing dwelling unit or neighborhood quality. The studies' findings are summarized on page 69.

There is some evidence that lower-income displacees are least satisfied with their post-move dwelling units and neighborhoods. Two studies controlled for income in their analysis of displacees' satisfaction with their new living arrangements. In Seattle, 41 percent of displacees with incomes of \$7,500 or less judged their post-move dwelling unit worse than their former one, compared with 29 percent of all displacees, and 38 percent considered their new neighborhood worse, compared with 27 percent of all displacees [Seattle, 1979]. In Baltimore, 21 percent of displacees with incomes under \$10,000 judged their new unit to be worse than the old one as compared to eight percent for displacees with incomes in the \$10-\$20,000 range [Goodman and Weissbrod, 1979].\* Twenty-one percent of displacees with incomes under \$10,000 judged their new neighborhoods worse as opposed to 15 percent with incomes between \$10-\$20,000, and 11 percent of displacees with incomes over \$20,000.

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\*Inexplicably, 33 percent of displacees with incomes over \$20,000 reported their new dwelling units to be worse than their former ones. The methodological weaknesses of this study are discussed in Section I(D) above.

Figure 3

## Displacee Satisfaction with Post-Move Dwelling Unit

	Better	Worse	Same	NR/DK
District of Columbia	59	41	--	--
District of Columbia Condos	38	28	26	10
Seattle	51	29	20	--
St. Paul	60	10	29	4
St. Louis	-----generally better-----			

Sources: District of Columbia [Collier et al., 1979], District of Columbia condominiums [Development Economics Group, 1977], Seattle [Seattle, 1979], St. Louis [Hu, 1979], St. Paul [Sands, 1979].

Displacees' subjective evaluation of the comparative quality of the neighborhoods to which they moved also showed substantial variation, as follows:

Figure 4

## Displacee Satisfaction with New Neighborhoods

	Better	Worse	Same	NR/DK
District of Columbia	42	58	--	--
Seattle	35	27	38	--
St. Louis	60	8	29	3
St. Paul	-----decidedly more positive--			

Sources: District of Columbia [Collier et al., 1979], Seattle [Seattle, 1979], St. Louis [Hu, 1979], St. Paul [Sands, 1979].



## V. THE NATURE AND CAUSES OF DISPLACEMENT

The previous sections have documented recent empirical findings regarding the concrete manifestations of displacement: who displacers and displacees are, and what happens to displacees. This section steps back to review evidence concerning the nature and causes of displacement.

### A. The New Displacement

The nature of displacement has fundamentally changed. During the 1950s and 1960s most displacement resulted from government action--principally the federal urban renewal and highway programs [Hartman, 1964; Hartman, 1971]. Specific project boundaries were delimited and the number of structures to be demolished and persons to be relocated counted. Since average rents as a proportion of real income decreased during this period [LeGates and Murphy, 1980], displacement as a result of rent increases was a relatively minor problem. Purely private displacement accounted for only a small portion of total displacement. And mixed public/private projects were rare.

All this has changed. The major sources of displacement today are rent increases, purely private action (unassisted gentrification), mixed public/private displacement, and displacement which occurs indirectly as a result of government

action. There are no clear boundaries around areas where displacement is occurring and no formal head counts of displacees.

Government plays a role in much of the displacement, but often in subtle and indirect ways: by providing favorable financing and other incentives for private developers, infrastructure which assists private redevelopment, and public projects which lead indirectly to displacement in adjacent neighborhoods. One clear example of how joint public/private action can lead to displacement is the Montgomery Gateway Urban Development Action Grant Project in Jersey City, New Jersey. HUD approved a UDAG for this project in January of 1978. A \$7 million UDAG, Section 8 demonstration rehabilitation program, and State Housing Finance Agency funding were all focused on a 13 block area of Jersey City. Federal UDAG funding permitted site acquisition, site clearance, infrastructure development, and relocation of residents. A mixture of rehabilitation and some additional new construction was proposed for the site funded by both Sec. 8 and State Housing Finance Agency monies. The UDAG proposed displacement of 225 households. As the project progressed, however, many more persons were discovered living on the site than described in the original UDAG application. Eventually 360 households, plus 83 individuals, were displaced. Only 14 people clung onto their housing -- the remainder were dispersed throughout the city and beyond. Seventy-two percent of these displacees earned less than 50 percent of the SMSA median income and 99 percent were minorities -- primarily (92 percent) Hispanic.

Much displacement today is more subtle than in Jersey City's Montgomery Gateway project. In the case of Montgomery Gateway, many buildings in a single area were emptied of virtually all of their inhabitants in a short period of time as part of a single integrated project. More common are projects in which some of the individual elements present in the Montgomery Gateway project operate individually to cause displacement either within a project area or adjacent to it. Studies are groping for concepts to express what is occurring. Recent studies speak of "secondary" [HUD, 1979a], "indirect" [HUD, 1979a], "underground" [Grier and Grier, 1978], "hidden" [San Francisco People's Law School, 1979], and "leveraged" [Legal Services Community Development Task Force, 1980] displacement. These concepts illustrate an emerging consensus that displacement is now tied to general housing and urban phenomena: issues of shelter cost increase, changing urban patterns, and revitalization. Displacement analysis cannot be separated from analysis of overall housing conditions.

#### B. Displacement and Housing Market Pathology

According to the HUD Displacement Report, displacement is "a common and continual process" in housing markets (p. 4). This image of displacement at the present time as a "normal" market phenomenon is either a tautology or wrong. The statement might be read to mean that displacement is a market phenomenon and whatever the market does is normal, but that would be a tautology. If HUD intended to imply that displacement is pro-

ceeding as part of housing market operations in the United States which are "normal," i.e., operating within the bounds of some (unspecified) norms, this is not true. The U.S. housing market in the 1970s, and particularly the latter part of the 1970s, has reversed the thirty-year trend of overall improvement which occurred since World War II. Indicators of the changed conditions show volatile production fluctuations; massive cost increases; a trillion and a half dollar unearned increment for homeowners and the pricing out of new households from the ownership market; rent increases rising unevenly, but more rapidly than real income; a widening differential between the value of units in ownership as opposed to rental status; and shifts in the national demographic base which are placing great pressure on many housing markets [LeGates and Murphy, 1980]. Some dimensions of the U.S. housing market are now similar to or worse than during the great Depression or World War II. Resulting displacement can only be considered normal by stretching the definition of normalcy to include what by any reasonable standard ought to be unacceptable levels of distress.

Shelter cost, conversion of the rental stock, and eviction data are particularly important indicators for understanding the connection between overall housing conditions and displacement. Since 1970 the average sales price of a new home in the United States has more than tripled from \$23,300 in 1970 to \$73,700 in 1979 [LeGates and Murphy, 1980]. The sales price of existing homes has risen nearly as fast. According to scholars

at the Massachusetts Institute of Technology, the 1970s has seen the majority of newly formed households priced out of the single family home market [Frieden and Solomon, 1977]. This represents a profound structural change in the U.S. housing system. Millions of households who historically would have purchased their own units are now moving into competition with renters.

An aspect of this change is the massive increase in conversions of the rental stock, removing units from the rental market and forcing up rents in the remaining rental stock. Between 1970 and 1975 125,000 units were converted to condominium ownership [HUD, 1975]. In 1977, 50,000 conversions were recorded; by 1978 the annual conversion rate had doubled, to 100,000 units [Advance Mortgage Corporation, 1979], and in 1979 there were 145,000 conversions [New York Times, 1979]. HUD has predicted that 1.1 million additional rental units will be converted to condominiums and cooperatives between 1979 and 1985 [HUD, 1980]. The impact of condominium conversion is particularly great in selected urban areas.\* Condomania is accounting for up to 50 percent of the the for-sale markets in Southern California, Chicago, and the District of Columbia, and over half in Southern Florida and San Francisco.

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\*Atlanta, Detroit, Philadelphia, and Phoenix all had no condominium conversions in 1977. In 1979 they had 1-2,000, 2,500, 2,000, and 2,000, respectively. New York City with 500 condominium conversions in 1977 had jumped to 4,000 by 1979. The District of Columbia and Dallas jumped from 1,000 conversions in 1977 to 5,000 and 6-8,000, respectively, in 1979 [Advance Mortgage Corporation, 1979].

The status of renters has also turned around in today's abnormal housing market. During the thirty-year period following World War II the proportion of income spent on rent declined on the average for all U.S. households. In the 1970s this favorable situation was reversed. Between 1970 and 1977 rents rose on an average of five percent above the growth in real income of urban renter households. In 1974-75 overall rents increased by nine percent in light of a real decline in renters' income and double digit inflation. Since 1975 rents have continued to rise more rapidly than the growth in real income [LeGates and Murphy, 1980].

A final indicator of market pathology is increases in evictions. For example, a recent San Francisco study [San Francisco People's Law School, 1979] found that the number of private housing evictions in San Francisco almost tripled between 1971 and 1978.

#### C. The Causes of Displacement

Answers to what "causes" displacement are suggested in the above section. The question may also be approached from a different level of analysis by examining "push" and "pull" factors operating on individual cities, neighborhoods, and households.

Hypotheses about the causes of displacement include:

- (a) the general deterioration in the U.S. economy, which makes

consumers place a premium on lower cost housing, (b) escalating costs of new suburban construction as a result of rising land costs, growth controls, environmental regulation, rising materials and labor costs, (c) a new anti-suburban ideology among children of the suburbs, (d) a priority on residences close to work centers because of uncertainties about the availability and price of gasoline, (e) demographic changes: more singles and childless families whose locational preferences are not tied to the location of good (suburban) schools, and (f) increasing appreciation of the architectural qualities of older housing.

The proximate cause of involuntary moves can come from many factors. The following profile of the relative importance of major causes emerges from the current studies and neighborhood interviews: Displacement as a result of rental increases is the single largest cause of displacement. Condominium conversion is an important cause in selected markets, but not in others. For example, condominium conversion is not a problem in New Orleans--a city which is experiencing substantial gentrification and displacement--because virtually all of New Orleans' housing consists of single dwelling units or "double shotgun" duplexes. It is a major source of displacement in San Francisco and the District of Columbia. Rehabilitation and conversion of units either to lower density residential or to commercial units accounts for substantial displacement. In a city like Denver with a growing commercial sector, residential units are



being converted to office space. Single room occupancy units--residential hotels, boarding houses, etc.--are being removed from the lower-income rental stock of most cities, causing displacement of marginal households. While purely public displacement for public works projects is a relatively minor issue, mixed public-private projects and indirect or leveraged displacement is a major problem.

Shifting to the other side of the coin, a number of studies have approached the question of what causes displacement from the point of view of in-movers. Surveys of in-movers to determine their characteristics and motivations for moving, or analyzing the characteristics of gentrifying neighborhoods, have recently been completed. Among the most important characteristics they have identified are the following: physical quality of the housing is very important to in-movers. This was the most important reason in-movers to St. Louis neighborhoods gave for their choice [Hu, 1979], and was ranked second in importance in New Orleans [Laska and Spain, 1979]. Size, appearance, quality of design, and durability of construction all play an important role.

Neighborhood attractiveness also plays an important role in drawing in-movers. This was the factor most mentioned by respondents to the New Orleans study [Laska and Spain, 1979]. Bivariate correlation measuring the strength of relationships between gentrification and selected neighborhood characteristics for a nine city sample found that gentrifiers tended to

select neighborhoods with fewer vacant units, more owner-occupied units, and more professional households already living in them [Henig, 1980].

While some studies [e.g., Black, 1975] have found that location factors--such as proximity to work or cultural resources--play an important role, this was not a main concern of the New Orleans and St. Louis movers.

Finally, low cost attracts gentrifiers. In St. Louis, where almost half of the houses studied were purchased for less than \$15,000, cost was mentioned as an important motivation just slightly less frequently than architectural quality [Hu, 1979].

In summary, displacement today is caused by fundamental structural changes in the overall U.S. housing situation. At another level of analysis a combination of "push" factors such as higher rents, condominiumization, other conversions, demolition, and rehabilitation act to force out former residents; and "pull" factors, such as architectural quality, neighborhood appeal, relatively cheap price, and locational advantages are pulling movers who can outbid and thereby displace long-term residents.

#### D. The Issue of Responsibility

The new nature of displacement, its connections with fundamental housing market pathology, and the subtle connections

with government action raise difficult questions about which level of government should assume responsibility for displacement, or even if it should be a matter of public concern at all.

The HUD Displacement Report takes the position that most displacement is not a result of government action, that such displacement is therefore not the government's responsibility, and that to the extent government action may be required it should be the responsibility of local, rather than the federal government. Specifically, the Displacement Report concludes that less than one-fifth of displacement is a "direct result" of government action (p. ii), and that "much of the privately induced displacement . . . is the result of forces . . . which are beyond the reach of federal, state, or local actions" (p. 17).

The HUD position is factually, legally, and normatively defective.

Factually, as the above sections have indicated, the connections between government action and displacement are substantial. While the displacement may be labeled "indirect," "secondary," "leveraged" or by some other name, careful analysis of its roots usually reveals some substantial government participation. The major federal urban development programs--Community Development Block Grants, Urban Development Action Grants, Neighborhood Housing Services, and related programs--

explicitly attempt to bring public and private actions together.

Legally Sec. 902 of the Housing and Community Development Act of 1978 calls upon HUD to develop policies to minimize both public and private displacement.\* Enabling legislation in the Housing and Urban Development Act of 1965 vests in the Secretary of HUD enough discretionary authority to take necessary measures to combat displacement, and the Housing and Community Development Act of 1974 as amended provides a sufficiently flexible federal aid vehicle that action could be taken if HUD were so motivated. As one HUD-sponsored study recently concluded: ". . . [A]mple legislative authority exists at the federal, state, and local levels to remedy the urban dislocation associated with revitalization." [Lawyers for Housing, 1980].

The essential issue, then, is a normative one--a question of opinion and values about what the appropriate government, and particularly federal government, role should be.

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\*Section 902 of the Housing and Community Development Amendments of 1978 (P.L. 95-557) requires the Secretary of Housing and Urban Development to "report to the Congress on recommendations for the formulation of a national policy to minimize involuntary displacement caused by the implementation of the Department's programs, and to alleviate the problems caused by displacement of residents of the Nation's cities due to residential and commercial development and housing rehabilitation, both publicly and privately financed."

A number of groups are urging government action--particularly federal government action--to address the displacement problem. In 1977 the National Urban Coalition concluded its pioneering displacement report by urging "government at all levels--federal, state, and local--to devise strategies to minimize the adverse effects of private market housing rehabilitation" [National Urban Coalition, 1977]. The Legal Services Community Development Task Force has called upon Congress to enact legislation which would in effect require specific HUD actions to control local government displacement [Legal Services Community Development Task Force, 1980]. And the National Association of Neighborhoods has called on government to aggressively support neighborhood anti-displacement strategies. The displacement plank of their proposed neighborhood platform calls for "[M]aking the allocation of federal funds to local governments dependent upon the existence of local anti-displacement plans which independent neighborhood organizations must help develop, implement, and monitor." [National Association of Neighborhoods, 1979b].

## VI. DISPLACEMENT AND INTEGRATION

One of the most emotional and least understood issues in the displacement process is the connection between displacement and race. The HUD Displacement Report contains no empirical information concerning the racial dimension of revitalization and displacement. It does, however, take a position: that revitalization represents "a unique opportunity" for racial integration (pp. 1, 3). This section attempts to fill the void by drawing together available information on the connection between displacement and integration.

### A. Does Gentrification Produce Integration?

Before discussing existing empirical research on what appears to be happening, it is important to focus on two diametrically opposed scenarios which dominate discussion: the optimistic HUD scenario, and a pessimistic scenario put forward by some minority spokespersons.

The HUD revitalization-as-opportunity scenario is as follows: into a segregated all-Black area white "urban pioneers" will come, physically upgrading the area. Some Blacks (perhaps ten percent, perhaps 25 percent) will remain in the area in a salt-and-pepper pattern. The residents will then live harmoniously together, working in block clubs, attending the same PTA, interacting as neighbors, and generally creating a stable, integrated community.

The pessimistic scenario put forward by some [Despsey, 1979; DeBernardo, 1979; Zarembka, 1980] is that whites will reoccupy desirable Black neighborhoods, pushing Blacks into suburban and exurban "Soveto" containment areas. Both scenarios are looking to the future--hypothesizing about what might happen on the basis of limited evidence about nascent trends.

Before turning to empirical evidence concerning displacement and integration it is important also to comment on appropriate research methodology for understanding racial integration in revitalization areas. There are several dangers: studies which over-aggregate information either on a metropolitan, city, or even neighborhood scale are likely to miss the intricacies of the real situation. For example, in Boston's South End, analysis at the neighborhood level would appear to show a well integrated community of white, Black, Asian, and Hispanic groups. But analysis at the census tract, block, and building level [Seifel, 1979] shows that the area is quite segregated into clearly defined racial and class enclaves.

Second, static studies, those which look at a situation at only one point in time, are likely to miss the important changes over time. For example, sociologist Eileen Zeitz' study of gentrification in Washington, D.C. [Zeitz, 1979] indicates that areas such as Georgetown would have appeared racially integrated midway in time between beginning as all-Black neighborhoods and ending as essentially all-white.



Before turning to a review of longitudinal, neighborhood studies of race in gentrifying neighborhoods it is important to point out one implicit premise of the HUD position which is empirically questionable and another which is morally repugnant.

First, the HUD Displacement Report implicitly assumes that movement of whites into all-minority neighborhoods is broadly occurring, since they describe the phenomenon as offering "a unique opportunity." However, our review of the evidence disclosed only one neighborhood (Cincinnati's Over-the-Rhine [Sieverding, 1979]) in which white movement into a basically Black area has been documented. In other areas, such as San Francisco's Western Addition, Boston's South End and Washington's Capitol Hill, white gentrification of Black areas is occurring. But the studies summarized in the Appendix to this report show that gentrification at the present time primarily involves white movement into white areas.

Second, to the extent that such integration is occurring it by definition involves integration at the expense of Blacks who are pushed out. It does not involve integration through Black movement into white areas. To hold this up as a "unique opportunity" is morally repugnant.

The racial dynamics of minority neighborhoods experiencing revitalization has been examined in recent studies of Boston [Seifel, 1979], New Orleans [Munski and O'Loughlin, 1979; Laska and Spain, 1979], Philadelphia [Cybriwsky, 1978], Washington, D.C. [Zeitz, 1979], and Seattle [Seattle, 1979].

The most thorough and systematic examination of the dynamics of ethnic and race relations in a neighborhood undergoing revitalization at the present time is a careful participant observer study by Roman Cybriwsky, a Ukrainian-American professor of geography at Temple University, who purchased a home in Fairmount, a gentrifying working-class ethnic neighborhood bordering Black areas of North Philadelphia. The Fairmounters are described as "firm in their resolve to exclude Blacks" (p. 27). The "formula" used consisted of "establishing a reputation as a tough, anti-Black neighborhood through the use of violence" and "[discrimination] against Blacks in the housing market" (p. 27). Cybriwsky documents this judgment with detailed information ranging from racist graffiti through beatings, rock and bottle attacks, and broken windows. According to Cybriwsky, reinvestment in the neighborhood did not provide an opportunity for racial integration. To the contrary, it produced a perverse kind of symbiosis in which the older ethnic residents made use of the young professionals to jack up housing prices; the older homeowners "have derived a heightened sense of security from the perception that low-income Blacks have been priced out of the area" (p. 30). For their part, the newcomers "fear Blacks, Black crime, and declining property values as much as do Fairmounters" (p. 30). They appreciate the "buffer" of tough anti-Black street gangs that seal off the southern part of the neighborhood (where most in-movers are located) from the Black areas just beyond.

A longitudinal study of "reinvansion" in four Washington, D.C., neighborhoods by sociologist Eileen Zeitz [Zeitz, 1979] reported that "in the reinvasion areas . . . it is only home ownership among the white population that is increasing. The Black homeowner population is diminishing. Additionally . . . the percentage of Black renter occupied units in each of the census tracts is decreasing over time." (p. 43).

A study of New Orleans [Munski and O'Loughlin, 1979] found a pattern somewhat similar to the one documented by Seifel in her Boston South End study. In two revitalizing neighborhoods close to the Vieux Carré in New Orleans (Algiers Point and Lower Marigny), the authors found that "the black population in Lower Marigny is now concentrated in the northern part of the area while the few black residents of Algiers Point are scattered in small nuclei throughout that neighborhood." (p. 54).

Another careful piece of observation on conflict in a gentrifying neighborhood was conducted in the South End of Boston [Auger, 1979]. Auger's study of the neighborhood politics of gentrification does not paint a picture of harmony. The "Ad Hoc Committee for a South End for South Enders" launched a scathing attack on middle-class rehabilitation; they were opposed by a group called the "Committee for a Balanced South End," which rallied to the defense of ongoing rehabilitation efforts serving the middle class. A third group with the neutral name "The South End Citizens' Association" emerged

with the single objective of "defusing" the "now explosive" controversies over housing and the future of the South End. Auger's portrait includes "raucous shouting matches," lawsuits to block the construction of assisted housing, picketing, exposés, and condemnatory press releases. The author summarizes:

The gentrification process was marked by the proliferation of opposing interest groups and by deepening divisions among their nonmobilized constituencies. Juxtapositions of dissimilar populations led to growing polarization in the neighborhood's visions of its future and to sharp divergence in objectives of public actions towards those ends . . . Dislocation and intensifying conflicts in the neighborhood produce anguish, trauma, and deep seated ill will among neighbors that can destroy the social fabric of the community. (p. 520)

The Auger study is not explicit on the racial composition of the three factions, though the original South End residents were racially mixed and the new residents are largely white.

A recent study of New Orleans also contains important information on the dynamics of race in gentrification situations [Laska and Spain, 1979]. The authors surveyed a sample of recent homebuyers in ten gentrifying neighborhoods. Approximately half of the respondents expected their neighborhoods to be all or mostly white in five years (p. 528). The expectation of living in racially homogeneous (all or nearly all white) neighborhoods was significantly correlated with income: higher income whites were more likely to anticipate living in all or nearly all white neighborhoods.

Residents surveyed had very definite views about land use in their neighborhoods. They wanted more parks and playgrounds, and less assisted housing. Only 17 percent favored more assisted housing for the elderly, nine percent favored scattered site public housing, seven percent private apartments, and zero percent more housing projects. Rather, 32 percent, 47 percent, and 57 percent favored reduction in the existing number of apartments, of scattered site subsidized units, and of housing projects, respectively (p. 529).

In summary, there is no empirical support for HUD's position that revitalization is currently providing a unique opportunity for racial integration. With only rare exceptions, gentrification currently involves whites moving into white or primarily white neighborhoods. The Blacks in these neighborhoods are usually disproportionately displaced, increasing racial segregation. Close, time-series analysis of gentrifying neighborhoods shows that those which appear to retain a racial mix are usually segregated at the census tract, block, or building level and that apparent integration diminishes over time. Contrary to HUD's naive or disingenuous vision of a "unique opportunity," gentrification in a number of U.S. cities has been marked by racial tension and violence. Even if a greater degree of racial integration were achieved by whites pushing out some, but not all, of the Blacks in gentrifying neighborhoods, a process of integration for a few at the expense of most Blacks is not an occurrence to be uncritically applauded.

We turn now from the gentrification-as-opportunity thesis to the question of Black dispersal as a result of gentrification.

B. Are Blacks Being Dispersed by Gentrification?

Some analysts assert that large numbers of Blacks are being or will soon be pushed out of desirable city neighborhoods by white gentrifiers [Dempsey, 1979; Calmore, 1979, DeBernardo, 1979]. In its sharpest form the criticism argues that the federal government is leading a broadly based conspiracy to get rid of urban Blacks [DeBernardo, 1979]. Most discussion of Black dispersal as a result of gentrification does not theorize about where Blacks resettle. However, a concern heard with increasing frequency in our neighborhood visits was that lower-income urban Blacks may ultimately be pushed out into suburban or exurban pockets of poverty--containment areas graphically referred to as "Sowetos" after South Africa's largest suburban Black containment area. We hear numerous expressions of the fear that the housing into which Blacks will be pushed will be physically as bad as or worse than inner city Black ghetto housing, poorly located (thereby increasing transportation costs and energy expenses), and that to the extent that concentrations of inner city Blacks are pushed across political subdivisions within cities or across city lines into suburban jurisdictions their political power will be weakened.

The HUD Displacement Report does not even address any of the important questions raised by Black dispersal: how many Blacks are being displaced? Where are they relocating? Are conditions of their new units, neighborhoods, and site locations better or worse? Is there evidence that the political power of inner city Blacks is being diminished by gentrification or that it may be in the future?

The threshold issue is how much displacement of Blacks is occurring? The neighborhood and city level studies provide a basis for some conclusions about the likely level and relative magnitude of Black displacement. First, as detailed in the preceding sections, the total volume of displacement in U.S. cities is much more substantial than HUD has indicated--reaching into the thousands per year in gentrifying cities. While the majority of displacees are white, a substantial proportion of this large displacement activity involves Blacks. Primarily Black neighborhoods such as Boston's South End, Washington, D.C.'s Capitol Hill, San Francisco's Western Addition, and Cincinnati's Over-the-Rhine are experiencing gentrification and large-scale Black displacement. As indicated above, several studies found that Blacks are being disproportionately dislocated from racially mixed neighborhoods.

During the "first generation" gentrification that has occurred so far incoming white professionals have tended to move into neighborhoods with fewer vacant units, more owner-occupied units, and with more professional households already.



During the 1970s they did not penetrate predominantly poor and minority neighborhoods. This is documented in a recent comparative study utilizing Polk data for 967 census tracts in nine cities [Henig, 1980: p. 9]. Many neighborhood groups expressed to us in our site visits the view that "second generation" gentrification is likely to move into more deteriorated areas and Black areas. One recent study of New Orleans concluded, however, that such a linear progression did not occur there [Laska, Seaman, and McSeveney, 1980]. In summary, Black displacement is already a significant phenomenon and is likely to increase.

Where displaced Blacks resettle can be hypothesized from the studies. As noted, the pattern of displacees as a whole in each city clustering near their old neighborhoods is very pronounced. It is virtually certain that most Black displacees also cluster. The only neighborhood level study which controlled for race in analyzing where displacees resettled found no significant difference between Black and white displacees from one Washington, D.C. census tract [Collier et al., 1979]. An essentially all-Black sample of displacees from a Baltimore neighborhood clustered [Callan, 1979]. Earlier studies of urban renewal displacement from San Francisco's largely Black Western Addition area [Litchfield, 1961] also found clustering, as did two comprehensive reviews of public displacement (most of which involved racial minorities) [Hartman, 1964, 1971].

One of the most controversial issues in displacement is the issue of the dispersal of Blacks, destruction of Black cultural identity and the disruption of Black political bases in central cities. Some theorists such as Anthony Downs of the Brookings Institution explicitly favor a program to disperse inner city Black populations to the suburbs in small enough groups that their culture and politics would not constitute a threat to the dominant white majority [Downs, 1973]. Downs calls for a deliberate governmental strategy to disperse Blacks to suburbs so that nowhere do they constitute more than 20 percent of the population of any jurisdiction.

Many Blacks react extremely strongly against such "dispersal" schemes. They point out that for many Blacks there is cultural and political strength in concentrated numbers. They fear that divided into small suburban clusters they will lose the control over inner city governments they are increasingly gaining. Blacks with a strong sense of Black cultural identity do not want to see their culture submerged in white, middle class suburbia.

In this context the debate over gentrification and displacement takes on particularly strong significance for many Blacks who fear that large scale white middle class migration back to central cities must inevitably push out large numbers of lower-income Blacks unable to compete with them in rent and home mortgage prices.

Analysis of the nature and extent of the problem is complicated. First, there are limited data on recent Black suburbanization. Second, there is no U.S. Census or other definition of precisely what is a suburb. What to an inner-city Black is defined as a suburb may be defined as urban by a suburban white. Third, movement of Blacks usually is not directly from an inner city to suburbia. Finally, the pace of change is rapid. Small scale trends today portend major changes tomorrow. The following discussion of available evidence is tentative and we encourage all persons with additional information to help clarify this important issue.

There is substantial new Black migration to suburbs. This represents a change from the recent past. Kathryn Nelson of HUD's Office of Policy Development and Research concluded on the basis of an analysis of Annual Housing Survey data for 19 metropolitan areas that since 1973 Black net migration to cities has for the first time in recent decades become negative, but during the same period has risen considerably in suburbs [Nelson, 1979].

Recent changes in the movement of Blacks to "inner" suburbs is even more extreme. During the 1970s large numbers of Black households moved into previously all-white areas outside of central cities. While the "outer" suburbs of most metropolitan areas still remains almost all white, a shift of historic dimensions is occurring in the inner suburbs.

Kathryn Nelson concludes that, "the bulk of recent increases

in Black suburbanization is attributable to choice rather than displacement" (Nelson, 1979, p. 25). She found that most Black immigrants to suburbs are well educated and financially well off. However, knowledgeable persons with whom we spoke point out that many Blacks pushed out of Boston's South End initially resettled in project housing in Roxbury, but have since moved on to Boston's inner suburbs. In the San Francisco Bay Area some Black households are leaving inner city neighborhoods such as the Western Addition for cheaper housing in inner suburb areas such as East Oakland, Bayward, and Rodeo.

Moreover, for certain low-income Blacks--residents or potential residents of assisted housing--dispersal is definitely occurring. Through dispersal of Section 8 new construction some low- and moderate-income households are now locating in suburbs. HUD's Regional Housing Mobility Program is moving some low- and very low-income Black households to suburbs as well. While the numbers of households directly involved in these programs have been small to date, these programs have important secondary effects. A recent study of New Orleans documents the fact that the presence of older public housing projects acts as an important deterrent to gentrification [Laska, Seaman, and McSeveney, 1980]. As a small number of public housing project tenants are moved and a project is demolished, gentrification may affect a substantial neighborhood around the former project where fear of crime or dislike of the project tenants' lifestyle previously kept gentrifiers away. Similarly, new assisted housing in suburban locations may drive away higher-income white families adjacent to the housing and

act as a magnet for further (limited) Black suburbanization.

There is little information from the displacement studies themselves which describes specifically the unit cost, condition and neighborhood characteristics of Black displacees as opposed to all displacees. The only study of these issues which controlled for race [Collier et al., 1979] found little difference between white and Black displacees' post-move shelter cost and quality in different income categories. However, the abundant literature showing that Blacks, particularly low-income, large family, and/or welfare dependent Blacks, face much worse housing choices strongly suggests that Black displacees fare even less well than all white displacees in their rehousing.

A final issue is the question of federal government involvement in the dispersal of Blacks. There is no question that the federal government is pursuing a policy of decentralizing assisted housing away from impacted neighborhoods within central cities and more generally from central cities to suburbs at the present time. The motives for this movement are hotly contested, as is the degree to which HUD consciously or unconsciously promotes other forms of dispersal.

The national policy to decentralize low-income housing away from central cities has been clearly enunciated. Most federal and local officials are explicit that they want to achieve racial as well as class dispersal. The policies are manifested in various ways--the statutory objective in federal community development law of "spatial deconcentration of housing"; the requirement in Housing Assistance Plans that cities consider the low- and moderate-income population

"expected to reside" in their community; formulas for the basic allocation of Section 8 new construction units which favor suburbs over central cities; a program whereby regional Councils of Government are given "bonus allocations" of Sec. 8 units to implement Area-wide Housing Opportunity Plans (AHOPs); site selection criteria for new assisted housing; and the Regional Housing Mobility program, which has been so vigorously attacked [DeBernardo, 1979; Calmore, 1979; Zarembka, 1980], designed to redistribute some of the very low-income public housing population towards suburbs. Collectively these policies and programs constitute a clear federal effort to deconcentrate assisted housing, disproportionately occupied by Blacks, both from racially impacted neighborhoods within central cities and from center cities to suburbs. These policies also serve to deprive gentrifying areas of housing subsidies that might enable the original residents to avoid displacement. The debate concerns motives and effects.

Liberal policy makers depict deconcentration efforts as designed to promote racial integration, offer "choice" or "opportunity," and to bring lower-income households physically closer to job opportunities. The alternative view sees the program as a cynical effort to get rid of Blacks, particularly poor central city Blacks, just at the point the cities have once again become desirable to the white population.

#### C. Issues of Class and Lifestyle Integration

In addition to the question of the effects of displacement on racial integration, issues of class and lifestyle integration are important in gentrifying neighborhoods.

As indicated in the Appendix table and the discussion of occupation and socio-economic characteristics of displacees and displacers, it is clear that displacement involves class issues. Other national studies of displacement have noted that frequently blue-collar workers are displaced by white-collar workers [National Urban Coalition, 1977]. The studies presented here corroborate that observation, but further indicate that lower status sectors of the white-collar urban workforce (clerical and sales employees) are frequently displaced by higher status white-collar workers (professional and managerial personnel). Several studies have described patterns of toleration but of little interaction between the classes. Thus in West Cambridge one study reports that "... although there exists no hostility between newcomers and the 'old guard' as they were often described, there exist no great bonds between them either." [Pattison, 1977: pp. 78-79]. Several newcomers felt strongly that they were perceived as outsiders. To the extent that the newcomers were welcomed in West Cambridge by the older, blue-collar population it was because they were seen as stable, responsible, and contributing to property values. Nearly identical attitudes among blue-collar white ethnics of Philadelphia's Fairmount neighborhood were reported [Cybriwsky, 1978]. Where different classes share the same physical turf but interact very little, it is unclear what degree of integration has occurred.

More problematic have been movements of a group with a distinct lifestyle into an areas which disapprove of that lifestyle.



The clearest examples involve gay gentrification. In San Francisco, where large numbers of gays have moved into largely Black neighborhoods (the Western Addition and Hayes Valley) and Hispanic areas (the Mission District), there has been tension, and neighborhood meetings have taken place trying to ease relations between the groups.

#### SUMMARY AND CONCLUSIONS

The portrait of and viewpoint on displacement in the United States presented in this report is very different from the position put forward in HUD's Displacement Report. This summary will not restate the detailed findings set out in the text and Appendix chart. Rather, it highlights fundamental points of departure between the competing views.

The issue of just how many persons are displaced annually is an initial matter of debate. In our judgment, the total number displaced annually is at least 2.5 million, almost double the 500,000 households (1,400,000 persons) estimated by HUD. The precise boundaries of the figure are shrouded in conceptual and data difficulties. The important point is that displacement is affecting so large a group of Americans that to the extent it is seen as harmful significant policy response is required.

The degree to which displacement is harmful is another point of basic disagreement. The HUD Displacement Report depicts displacement as causing little or no hardship for most displacees. The picture it presents is of displacees being generally able to quickly find nearby, comparable or superior units, at affordable prices. Our analysis of the city and neighborhood studies suggests that displacement is almost always accompanied by rent increases, forcing an increasing number of families into severe financial binds;

change in unit quality is uneven; that even where replacement units are physically superior neighborhood conditions or location may be worse or displacees may feel their overall situation has deteriorated for other reasons. The trouble, cost, psychological trauma and political impotence associated with forced displacement is never pleasant and represents a real hardship for the elderly and many other displacees. Finally, we note that what limited evidence is available suggests that low-income displacees are particularly hurt. In summary, displacement appears, in our view, seldom to be unproblematic and frequently is a severe hardship.

The fact that this report presents specific empirical evidence from sixteen quite recent studies regarding what happened to displacees highlights another point of departure between the two reports: the question of how much is known about displacement and how much more needs to be known before a public policy response is formulated. The HUD Displacement Report repeatedly takes the position that little is known about displacement. Our report takes issue with this proposition and backs that position with solid evidence. The sixteen city and neighborhood studies described here provide a basis for reasonably reliable estimates of the magnitude and nature of displacement in major U.S. cities. The patterns we have described were independently identified and precisely described enough times that they can be accepted as reliable. (In fairness to HUD, many of the studies were completed subsequent to release of their Displacement Report).

The hundreds of city and neighborhood level individuals involved in anti-displacement work represent a well developed network of information about the phenomenon. In short, much is known about displacement. HUD's Office of Policy Development and Research, which has overseen the Department's displacement research, is pursuing a program of hyper-empiricism with respect to this problem, viewing very detailed head-counting as the only way in which to know what is occurring. HUD has had a tendency to overstudy trees and neglect forests. In our judgment, the reality of displacement can be better understood by a creative mix of pulling information from available studies, interviews, qualitative research, direct experience, and reliance on knowledgeable people around the country, supplemented by a limited empirical research effort carefully targeted to fill in gaps. One of our informants refers to neighborhood residents as "walking land use maps" [Pratt Center, 1979: p. 3]. More acceptance that neighborhood groups, city officials, academics, other government researchers, and the people themselves know something about the displacement phenomenon would be helpful to HUD.

Epistemological debate aside, even more problematic is the issue of how much detail is necessary before action can be taken. The HUD Displacement Report repeatedly calls for more detailed information before policy can be formulated.\* In our

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\*Howard Sumka of PDR has taken the position that: "there is little support for the notion that . . . large numbers of poor households are being affected" by displacement, and further, that "given the current state of knowledge about displacement, calls for a broad and far-reaching national policy appear to be premature." [Sumka, 1979a].

judgment enough is now known for policy to be formulated, and the search for greater precision will add little except delay. It is now possible to identify with some accuracy the census tracts of major U.S. cities in which displacement is occurring. The racial, income, socio-economic status, family structure, tenure, age and lifestyle composition of these areas is also known in sufficient detail that policy can be made. The collection of finer grained statistical material serves little purpose in view of the fact that the neighborhoods are fluid, and that there is little realistic prospect of sufficient subsidies or other program funds to address more than a fraction of the existing need in the near future.

Yet another area in which the two reports are light years apart involves the interpretation of the degree to which displacement causes racial, class, and lifestyle conflict. HUD makes no mention of social conflict in the process and goes out of its way to depict revitalization as offering a unique opportunity for racial integration. We saw occasional hopeful signs in our city visits and share many of HUD's aspirations for peaceful and harmonious outcomes. But in the studies we read and the neighborhoods we visited we also saw considerable evidence of intense conflict between renters and owners (particularly condominium converters), Blacks and whites, working-class and professional residents, and many different lifestyle groups. Angry renters are packing city halls demanding condominium conversion controls in dozens of cities. White street gangs

are attacking Blacks passing through a gentrifying Philadelphia neighborhood and driving out one Black family who purchased a home in the neighborhood. Gentrifiers in New Orleans are registering strong opposition to assisted housing in their neighborhoods, and Black and Hispanic groups are resisting gay gentrification in San Francisco. At the least, acknowledgement of the problems is in order. To look at displacement through rose-colored glasses will not help with the tough policy decisions which must be made if the positive side of urban revitalization is to be preserved and the best hopes realized.

Finally, the two reports are far apart on the issue of government responsibility and what should be done. The HUD Displacement Report takes the position that displacement is mainly the result of normal private market forces and that government cannot and should not do much about it; and that to the extent that government action is required local government is the correct tier of the federal system to address the issue. Our report is diametrically opposed on these essentially normative issues, seeing displacement at the present time as a product of a highly abnormal market and holding that the federal government can and should play a leadership role in addressing the problem.

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Mr. ROSENTHAL. Mr. Goetze.

**STATEMENT OF ROLF GOETZE, AUTHOR, FORMER BOSTON REDEVELOPMENT AUTHORITY DIRECTOR OF HOUSING REVITALIZATION PROGRAMS**

Mr. GOETZE. My name is Rolf Goetze. Until last fall I was director of housing revitalization programs for the Boston Redevelopment Authority. Since then I have been consulting, working with housing dynamics so that cities cannot be knocked off balance by these new forces that inflation and demographics have unleashed.

You may be aware—I know Mr. Jacobs is aware—that our housing is not just being treated as needed shelter but is becoming treated by some as a commodity. The Federal tax code, which gives the most encouragement for homeownership to those in the highest tax bracket is, in fact, a large part of the conversion problem.

I propose to give you an overview or road map to put condo conversions into perspective.

Mr. ROSENTHAL. Excuse me. I just want to make sure we put your entire statement into the record, without objection.

Mr. GOETZE. Thank you, Mr. Chairman.

The three pieces I want to focus on are the market dynamics in Boston, the market changes going on in housing in general—I am currently doing a study on that for the Joint Center for Urban Studies—and finally what could be done to improve the situation.

Briefly, in Boston we have watched this conversion process start over the last decade, and it resembles an erratic S curve. It begins tentatively, trying out where condominium conversions will work. The process is very sensitive to things such as the local tax policy, to changes in lending rate, to legislation, to local practices on rent controls, the condo moratoria, and so forth.

For example, the question was raised earlier why so much conversion happened in Chicago. I am not a student of Chicago, but my impression is that if you were to look at the local ways in which housing there is taxed, the local property tax, that would probably provide a clue as to why so many apartments were converted. The local tax burden was altered favorably.

In Boston as yet only a very small percentage of the rental stock has been converted, but already we have seen that the process began with luxury units housing people in the highest tax brackets who in effect asked themselves, "Why should we be paying this much monthly in rent when, in fact, there are benefits in ownership for us?" Initially, conversions seemed in everyone's best interests.

Once the process is established, however, it begins to move pretty rapidly and to affect other stock like lodging houses which are the traditional housing for much poorer people or even nonresidential structures. Statistical data on conversions are always confusing because different neighborhoods are at different stages of conversion. The process first started with the luxury stock, but is by now consuming lodging houses in the first areas, even as it enters through the better stock in new areas. The overall statistics for Boston will still suggest that luxury conversions dominate because nobody has winnowed out the details to reveal how this dynamic alters over time.

In Boston, as elsewhere, the owner of rental property has been in real distress for years. I didn't include this in the written testimony, but a study I am working on sheds a lot of light on why we had arson and why the Boston Globe has been doing a series on arson.

Basically, the multifamily investor-owner of apartment buildings typically owns the property with out-of-date financing, of 6 percent mortgages, paid-up mortgages or whatever. Because of poor cash flow he is also deferring maintenance which exposes him to prosecution for housing code violations.

A typical apartment under that arrangement costs about \$200 a month. Our statistics suggest that if the maintenance were not deferred, the rent should be about \$250 a month. In other words, there is only a \$50 monthly gap between deterioration and maintenance under current ownership.

However, the whole rental situation rests on out-of-date financing. Any one of these properties, as it is turned over to a new owner and encounters 12 to 14 to 16 percent financing, almost invariably introduces a \$100 to \$150 jump in rents right there. In other words, the apartment that is now substandard and not attractive to the investor-owner at \$200 a month, by being sold to a new buyer becomes a \$350 or \$400 apartment, suitable for rental to a higher income tenant.

There are many different factors coming together here but I am suggesting that if you make up for deferred maintenance as you bring in new financing, you essentially end up doubling the rent.

We have interviewed lots of the owners in Boston. Are they buying these properties in order to continue to rent them to current tenants? No, they are not. They have various objectives in mind. One end-point is rehab with section 8. They shall assume that there will be more section 8 in order to rehabilitate the properties, and the recent changes obviously may catch them by surprise.

There has also been some arson-for-profit where insurance policies were written for an excessive amount. There has been a fair amount of that, particularly in neighborhoods where new income groups, including students, young professionals, and so forth, are now interested in buying. It becomes a way of removing people by accident, if you will.

The third objective is obviously the idea of condominium conversion. I have with me the Boston condominium report to insert in the record. It suggests that the same properties which under Boston's rent control, under Boston's condo moratoriums, and so forth, are worth only about \$12,000 a unit, are worth \$35,000 a unit as starters if they make it out the other end of the conversion process as a condominium.

Putting a moratorium on conversions only enhances the value of those condominiums that have already been converted. This means the luxury apartments that were done a few years ago have already appreciated from \$30,000 to \$70,000 and right on up. In other words, trying to put a ban on future conversions, just encourages more of the speculation, and makes the people who earn their livelihood in the converting process only that much more clever in reaching that pot of gold, the tax shelter, which is now attached to

resident ownership. To alter this—and to reindustrialize this country—requires dealing with those tax shelters.

There are four main Federal policies that are shaping our housing changes right now. The Federal tax code automatically rewards investing and penalizes saving. As you know, there are a lot of other committees working on changing that. Right now our system encourages those people who see their self-interests most clearly to remain mortgaged to the hilt and buy everything on credit, and that feeds our national inflation.

No. 2, the homeowner deductions particularly enhance homeownership for the people in the highest tax brackets. I am sure you are aware that one-quarter of the \$20 billion in homeowner deductions go to taxpayers making over \$50,000 per year, yet this group is less than 3 percent of our population. In many cases these people are no longer investing in the economy, in equities, but they are investing in housing as a better tax sheltered inflation hedge.

The third Federal policy involves the investor deductions which were set up to enhance depreciation to make negative cash flow attractive. Double-declining balance depreciation, and similar schemes, force turnover at about this time. For the owner of rental property with limited cash flow to make a fair return, he has to turn it over when the declining balance depreciation curve has run its course. That puts the property right out there in the market at the time when mortgage rates seem most insurmountable. Therefore, a lot of secondary financing is now coming in the picture.

The last and fourth point is that the Federal housing programs like section 8, section 236, 312, and so forth, promised far more than could be delivered and have thereby raised a set of expectations or a belief that these problems would be addressed with more Federal assistance.

In Boston much of our section 8 has gone into remedying bad business judgments on the part of investor-owner. Instead of letting it reach the point of having arson-for-profit, they instead found their connections at city hall in order to rehab those particular properties. These investor-owners now have a good rent-stream coming in—not a good example for other owners—and, in general, there is nowhere near enough in any city of section 8 to address all the problems raised by these four Federal policies coming together.

I know your time is short, but let me try to get to my recommendations. Over one-third, 34.8 percent of the households nationally, are tenants. That is in 1978, 26.9 million out of 77 million households. Every one of those, except for the small fraction covered by Federal programs, is in jeopardy now, given the way inflation compounds with the fact that people have discovered that adding new housing for the people in the highest tax brackets no longer has the appeal because you have to drive out too far outside the cities.

The strongest housing markets are now in central cities, and that is where the rental inventory is located. That rental inventory, virtually in its entirety, is now a sitting duck for this new revitalization/conversion process which has discovered that the best place for people in higher tax brackets to shelter their incomes is existing housing.

Admittedly the biggest profits may already be behind us because we have had a decade of mortgage rates that were always below the rate of inflation. As variable rate mortgages come in reintroducing some sanity to lending, and as people say "this housing unit cannot possibly be worth \$100,000," these rates of housing appreciation may now have peaked. The conversion dynamics would continue for years in any case.

Our research suggests that it even takes new forms: The smart people increasingly no longer go to the bank for financing. One clever instance involved buying the house with the elderly resident still inside. The elderly resident gave the financing and obtained a helpful couple under the same roof.

There are a lot of new unconventional ways in which the market is responding to these crazy pressures for conversion to homeownership.

There are many possible solutions to assist current tenants who are victimized by this process, but they will cost a lot of money. Someone will have to pay to help tenants who cannot afford rent. Incidentally extending Federal income tax deductions—for local property and mortgage interest which is already included in the rent—to the tenants is often suggested but cannot be a solution because these deductions are already going to the owners, and their economics are already not working. In other words, that is really a nonsolution. A real solution is to issue rental housing vouchers on the order of \$200 a month to bridge the rent gap I identified earlier. That is for the 14.4 million households that are under \$10,000 a year—

Mr. ROSENTHAL. That won't be easy to do with this Congress.

Mr. GOETZE. Then you have just identified a second nonsolution. The price tag on vouchers is \$34.6 billion a year. The homeowner deductions are estimated by the Bureau of the Budget to be increasing some \$8 billion per annum. It was \$22 billion last year and initial estimates indicate it will be \$30 billion this year. Those tax expenditures are going up at a horrendous rate, and are causing the conversions problems.

There are two things that you could do. You can introduce more subsidies for the tenant side of the equation or cap the deductions. Most of the literature instead suggests what I call, basically, diversions, but I should mention them for the record.

You could divert the rental stock at turnover into new tenure forms. The most promising one is limited equity cooperatives. I submit to you, if we had done that 10 years ago, under 5 percent amortizing mortgages, we would have created a permanent pool of quasi-rental housing that would have solved these needs. However, we didn't do that. We cannot do that now because a limited equity co-op would still have to start with current market rate financing. However, with special low-interest Government financing something might be done.

I do want to stress that co-ops require much technical assistance and persuasion. The tax incentives under the current IRS Code require you to be in the higher tax brackets to get the benefits, so these are pretty limited for moderate-income tenants. It is promising but not really very promising.



Helping tenants buy their own condos is another suggestion. We are working with a number of groups in the Boston metropolitan area to enable the poorer people to buy the condominiums outright and to buy stock where they live that has not yet been converted. That turns out to be an uphill fight because they tend to take the standard deduction, and they are not very interested.

The third solution is home sharing. It is not unlike the person who buys the house with the elderly person inside. It is matching up older people with others. You can call it a form of doubling up. It seems to be entered into voluntarily. Seattle has, perhaps, the best program of this sort going.

Accessory apartments is another rental solution. We are doing a fair amount of them in the Boston metropolitan area but many are illegal. The market is creating many additional units under the homeowner's roof, so to speak. In some areas they are called mother-in-law apartments. Those summarize various ways of introducing more lower-cost dwellings into the housing equations where someone does not have to buy and make a condominium profit at the outset. There are more. I guess Mr. Lauber is a better chronicler of those, like grandfathering the rights of long-term existing tenants to remain. That is a stopgap. Or you can set up a market for transferring the development rights to permit condo conversion as new rental alternatives are created.

Mr. ROSENTHAL. Do you have all of these ideas in your statement?

Mr. GOETZE. I am afraid not. They are in my files at home, frankly.

Mr. ROSENTHAL. I think you have provided us with some very creative—

Mr. GOETZE. Please let me conclude. My main point is that there are lots of things that look like they contribute toward a solution but they are in fact quite labor intensive. Homeowner deductions don't work terribly well for tenants or anyone under \$20,000 a year.

So I believe we must cap homeowner deductions. I did an op-ed piece on this in the New York Times on March 18, just recently. I must admit that if someone had told me last August that I was going to be writing about changing homeowner deductions, I would have told him he was crazy. I didn't understand then how these things tie together.

Right now we have a very strong Federal bias rewarding upper tax bracket homeownership, diverting the affluent from investing in the economy.

I propose that we simplify the tax code by substituting a 25-percent across-the-board tax credit. Not take away homeowner deductions but open them up to a broader spectrum of people but also cap them in effect so they only go toward your first house, toward a \$100,000 house. The cap that I proposed was to shelter \$10,000 worth of interest and property taxes per year but anything beyond that, frankly, should be on the individual rather than taken as a tax deduction, in my opinion.

Rental housing now costs more than people are willing to pay, in spite of promises from the 1949 Housing Act forward. \$200 a month housing cannot be provided through rent controls or anything else.



I have also learned—

Mr. ROSENTHAL. I think we have to conclude.

Mr. GOETZE. I am sorry. There are three concluding points. One is that each past solution like limited equity co-ops, and so forth, turns out to be tinkering and doesn't really get at the heart of the matter. Adding double declining balance depreciations sounded good until those properties are now ready to roll over again.

That leaves two options, in my opinion: We can either come up with rental housing vouchers which have a \$35 billion price tag, or we can talk about modifying homeowner deductions which, in fact, do not cost anything but puts a cap on future housing tax expenditures in coming years, helping balance the Federal budget.

Mr. ROSENTHAL. What about the idea of moving Washington lawyers out of their present residences, then we take that space and use it for residential housing.

Mr. GOETZE. Mr. Chairman, what we have done in Boston is almost like that. That is, we have tried to market neighborhoods that were out of favor because we found that fantastic profits were being made in housing when neighborhoods got excessively in favor. I don't know how you will get your lawyers out but we found in Boston we could somehow—what I am saying is that conversion problems surface where we have too many people wanting to be in the same place—southern California, Adams Morgan, Society Hill, Beacon Hill, and so forth, and the Federal tax code is something that exacerbates that process.

Mr. ROSENTHAL. Thank you very much. Mr. Daub.

Mr. DAUB. I guess, Mr. Chairman, that logic might be much like putting a glass dome over the Capitol and harnessing all the hot air. We would be energy independent overnight.

None of you at this table want to nationalize the housing industry, I take it. Mr. Hartman, you don't want to do that, do you?

Mr. HARTMAN. I am not sure what you mean by the term.

Mr. DAUB. I mean to empower the Government to regulate all housing decisions. Nobody can make any decisions in the housing market unless the Government approves, in terms of selling, buying, or renting.

Mr. HARTMAN. I would be in favor of much greater Government controls but not the Government doing everything by any means.

Mr. DAUB. We have differences of opinion at the panel table right there. Would you favor better tax treatment for maintenance of rental properties by the original owners, as opposed to their being forced at this point in time to say, "I have had this building 8 years. That is about the curve. This is about where I have to sell it now and make it right for a condo conversion?"

Mr. BRADFORD. The tax incentives work entirely the wrong way now.

Mr. DAUB. That might be attractive to you, though?

Mr. GOETZE. Everyone seems to agree on that.

Mr. DAUB. Mr. Bradford, how about you? You don't want to nationalize the home housing market and make every decision subject to Government control? Do you want to use the tax code, or do you want the Federal Government to limit profits, professionally speaking?

Mr. BRADFORD. The tax code could be used to some extent. The reason it is important not to have the Government get too heavily involved in this is that there are tremendous variations in local housing markets. Every time the Government gets involved and creates something uniform in a program, it usually creates as many side effects and problems as it does solutions.

Mr. DAUB. Thank you.

Mr. ROSENTHAL. Thank you all very, very much for coming. The subcommittee stands adjourned until 9:30 tomorrow morning.

[Mr. Goetze's prepared statement follows:]

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Testimony of Rolf Goetze of Belmont, Massachusetts  
to the Commerce, Consumer, and Monetary Affairs Subcommittee Hearings  
into Conversion of Rental Housing to Condominiums and Cooperatives

March 31, 1981 Room 2154  
Rayburn House Office Building

#### Introduction

Condominiums and cooperatives are as yet only a drop in the bucket of national housing stock, but already conversion of rental stock is a sharply accelerating trend. Encouraged by federal tax laws and inflation, conversions appear wherever urban re-discovery and favorable demographics come together. It can take five or more years for such new tenure forms to gain broader local acceptance, but once they do, the dynamics are almost irresistible. Homeowner income tax deductions provide a kind of federal bonus to the affluent at the household level.

Many regions are plagued by severe supply/demand imbalances in housing that sharply encourage upper income investors to invest for gain wherever housing appears scarce -- West Coast, East Coast, and favored neighborhoods. Good housing everywhere, suitable for resident ownership, from Victorians to condominiums, is being discovered as the best inflation-hedged investment available. As the more affluent buy up this housing, they reduce the stock of moderate income housing.

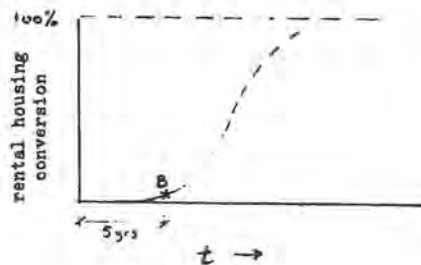
The properties judged most suitable by the market for conversion are well-located rentals without deferred maintenance in stable and rising neighborhoods, i.e., apartments which tenants consider "a real find." Often these house long-term, older residents, who no longer pay enough rent to keep investor-owners satisfied in light of new market opportunities. However, unless the underlying causes of the market changes can be addressed, well-intended local actions like rent controls, all too easily contribute to housing problems, not to their solutions.

Wherever housing is scarce and anti-growth regulations constrain new construction, attractive homeowner income tax deductions encourage recycling existing stock. The greater the shortage, the larger the windfall to the interests with fore-sight. This makes it difficult to

address housing problems wherever there is too little supply. Condominium conversions are only a minor symptom of overall housing mismatches, and are not suitable for treatment in isolation.

Consider Boston:  $2\frac{1}{2}$  per cent of the housing stock is now condominiums (6,000 out of 240,000 housing units). The conversion rate is under 1 per cent per year. However, buildings worth \$12,000 per unit as investor-owned apartments are worth \$30,000 per unit when offered for sale as condominiums after conversion. Initial conversions were formerly luxury apartments. These were sold for \$20-30,000 in the mid 1970s, and are now soaring in value to \$60-70,000 and up. As the condominium market became established in particular neighborhoods, lower grade stock was drawn into the process. Lodging houses are now also being converted, along with suitable, previously non-residential structures. The details are in Chapter V of "Boston's Housing in the 1980s" which I have attached.

Studies often overlook how dynamics change as the local market begins to accept condominiums. See the "S curve". Different cities are at different points on this curve: Boston seems roughly at point B.



Under federal tax laws the former apartment owner himself cannot usually reap all the dollars per unit that conversion provides. Because of these laws, a local industry of middlemen has sprung up around conversion in Boston. However, if there were no regulations, delays or uncertainties, conversion would be very lucrative. It is most profitable for

those who can clear the political hurdles (obtain special concessions) and for this reason, the process attracts the politically savvy. Experienced converters also naturally try to branch out to less regulated cities. Since condominium demand in Boston greatly exceeds supply, windfall gains have also come to early-bird condominium buyers.

Traditional rents in Boston are still under \$200 per month, because there is either no mortgage or only a low interest mortgage, and maintenance is being deferred. In the past when deterioration became too great, tenants simply moved on.

Break-even rents are \$250 per month with an old or no mortgage; upon turnover, break-even rents become \$350 per month "as is" to cover the new financing, and \$400 per month plus, to cover fix-up to correct deferred maintenance. However, at rents above \$400 per month, households in higher income tax brackets are usually better off owning because homeowner deductions reduce their effective mortgage interest rates. (A 15% mortgage feels like under 10% to a household in a 40% tax bracket). This means the economics of housing no longer work to maintain this stock as rentals.

In parts of Boston where housing no longer trickles down, lower-priced rentals are simply disappearing. Nevertheless, tenants still count on finding "another apartment down the street" at \$200 per month. When they cannot, they become a formidable political coalition. Meanwhile, new interests are buying up the most stable buildings with an eye to eventual condominium conversion.

Until recently, rental vacancy rates were high, and many properties were headed towards abandonment, arson-for-profit, or Section 8 rehab, and many existing owners wanted to unload. Now local acceptance of condominium tenure is bailing out existing property owners as new owners step in. However, rolling over the mortgage raises the interim rents by \$100-150/mo. per unit. The financial unattractiveness of rental housing to investor-owners remains; condominium conversions are simply a new way of escaping some investor-owners' problems.

In spite of the prevailing market, rents below \$250 per month are now an anachronism, since they are based on 6 percent mortgages and deferred maintenance. At the same time, many Boston owners find that tenants unable to afford a break-even rent of \$300 per month are difficult

customers, because federal and local laws promise them rights to decent housing which they cannot pay for -- and legal aid attorneys will attempt to secure for them legally, that which they cannot obtain economically.

For tenants this does not usually mean literal displacement onto the street, but simply that they are now very much more exposed to the indirect effects of inflation. They will either be asked to pay a higher, break-even rent as their building is sold in natural turnover, or discover there are no affordable alternatives acceptable to them when they decide to move.

Housing Costs are viewed at least three ways by residents:

- A. monthly outlay for rent
- B. monthly outlay for homeownership
- C. long-term housing costs and benefits

The housing policy debate is confused by these three very different underlying perspectives. As illustrated in Boston above, monthly outlays for rents, perspective A, are now both unrealistic and sharply rising, due to inflation, cost of credit, and the increasing scarcity of acceptable housing.

The cost of entering homeownership, perspective B, has risen even more sharply. The media call it "unaffordable." However, seen in the long-term from perspective C, homeownership is still an attractive inflation-hedged investment that pays handsome rewards in later years. It costs a lot to enter homeownership (much more than in the past), but prospects are still that it will pay back generously. The higher one's tax bracket, the greater the payback. See the attached article, "The Housing Bubble".

Inflation has made some people much more aware than others that perspectives A, B, and C are quite different and conflicting. Herein lie the seeds of class conflict. Those with a longer time horizon, typically the upper classes, now avoid paying off their mortgages. Believing inflation to be worsening, and encouraged by tax deductions for interest and capital gains, they remain mortgaged to the hilt, thereby soaking up available credit and driving up interest rates.

### The Local Role

Local laws seldom address the underlying housing realities, but have usually attempted to provide only symptomatic relief: for example, slowing the rate of condominium conversions, controlling rents, setting up new guidelines governing conversions, and devising consumer protective measures for condominium owners. Such ad hoc measures can at best only mitigate the situation, but they often mask the fact that underlying inequities and mismatches continue to worsen. However, there is a lot more that can be done at the local level once the basic dynamics are understood. The attached article, "The Dynamics of Neighborhoods", identifies ways in which local housing policy can countervail against market extremes and correct supply/demand mismatches at the neighborhood level.

Previous local experience largely shapes market acceptance or rejection of condominiums, cooperatives, and other innovative tenure forms like home-sharing. It seems to take several years until market interests either become comfortable and secure with the benefits of conversions, or polarized about them. This familiarization process started in most cities sometime in the 1970s, but some areas appear still untouched.

This period of "trial and error" usually has already shaped the local policy options. In some areas, most notably New York, cooperatives have a development history. Cooperatives can sidestep the increasing housing costs associated with turnover as each successive owner takes out his investment gains. In a cooperative, residents have the "privilege" of residing in housing developed when labor and finance costs were much lower, and then passing it on to others in equal or better condition when they no longer need it. However, residents in limited equity cooperatives forego equity appreciation which now drives the rest of the American housing system.

Few other areas, to my knowledge, have developed a full awareness of the benefits that cooperative alternatives provide. It seems the conversion issue is being fought on a superficial level without deeper understanding of many possible residential alternatives including homesharing, accessory or mother-in-law apartments, etc.

To my mind, new condo legislation is inappropriate at this point. The best policies will be generated by deeper awareness of options at



the federal, state, and local levels, and increased understanding of particular local housing situations. Then the real alternatives can be identified and separated from false hopes.

#### The Federal Role

The federal government, by encouraging homeownership through tax deductions, exemptions and deferral of capital gains, etc., now sharply contributes to local tensions. The tax code, by specifying the way capital gains are treated, has even compounded the tensions by arranging that skilled middlemen, rather than existing owners, handle the conversion and sales of condominiums. The solution must be basic: find ways of adding enough acceptable new housing, provide better investments than existing housing for those in high tax brackets, and modify the federal income tax code to cap homeownership subsidies that are unnecessary. "The Housing Bubble" elaborates how these basic problems could be resolved.

Let me close with a quote from Dan Lauber writing in Planning, February, 1981:

Strip away the emotionalism and propaganda from condominium conversions and what do you get? Inflated housing costs, displacement, and a serious reduction in the supply of affordable housing in many communities.

With Section 8 funds shrinking, leaving 11.5 million lower income households nationwide in need of housing assistance, cities are hard put to meet their housing goals. Condominium conversions, which shrink the supply of housing that low- to middle-income families can afford, make the situation worse.

I think that summarizes our challenge rather well.

What do condo conversions, displacement of poor people, shortage of new homes, and unprecedented housing inflation have in common? The tax code.

# THE HOUSING BUBBLE

by Rolf Goetze  
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As the Reagan administration takes office, the tax system is being blamed for a broad range of ills besetting the economy. But it is unlikely that President Reagan's advisers will look too closely at the most self-defeating tax provisions of all—the tax favoritism in housing.

In the postwar period, the array of deductions and deferrals favoring housing gave a broad middle class effective incentives to become homeowners, and helped to stimulate the construction of new, moderately priced homes. Today, the tax treatment of housing is quite out of control, operating as a hidden regressive subsidy, that aggravates the displacement of the urban poor, and further enriches the well-to-do.

Worse, tax favoritism for housing no longer effectively adds to the supply of housing. Instead, it merely helps to bid up prices, inducing the affluent to over-consume while the needy are left out. As housing prices have soared, young people with enough income are hocking everything in order to buy a house before the market rises entirely beyond their reach. But once they become homeowners, they are part of the constituency for further inflation, because they count on further price increases. As a result, attempts at reform encounter enormous political resistance.

Tax reductions for homeowners are still thought to promote new housing construction, thereby making all housing more affordable. However, in the new urban realities—baby boom demographics, energy scarcity, limited land, inadequate production, and the back-to-the-city movement—the federal tax provisions encourage those in upper tax brackets to over-invest in scarce housing as an inflation hedge. This drives up prices and leaves too little housing for others. These tax deductions now threaten to divide those who already have their homes (or can find the resources to invest) from the have-nots who must count on more government aid—more than can ever be provided. Indeed, the government that promises home subsidies with one hand more than cancels their value by awarding tax preferences with the other.

Among the many intractable aspects of the nation's current housing difficulties, tax deductions are one element that could readily be modified by the new Reagan administration, if the effects of the current deductions were better understood. There is a simple remedy for the destructive interaction of tax deductions with the current

*Rolf Goetze, formerly of the Boston Redevelopment Authority, is author of Understanding Neighborhood Change (Ballinger, 1979) and Building Neighborhood Confidence (Ballinger, 1976). For the insights on this article, he is indebted to the work of Cushing Dalboore of the Low Income Housing Coalition, Richard Bourdon of the Congressional Research Service, and George Peterson of the Urban Institute. He also wishes to thank the National Urban Coalition for providing a forum for discussion.*

urban predicament: the replacement of tax deductions with an across-the-board tax credit to all homeowners. This would maintain benefits for the middle class at roughly the current level but redistribute the tax benefits currently surging to those in the highest tax brackets back to working and lower class owners—thereby helping to stabilize our cities, as well as promoting the upgrading and better utilization of existing housing.

Housing issues are hard to connect. Every day newspapers carry stories about seemingly isolated topics like the housing crunch, soaring shelter costs, the baby boom generation's move back to the city, and the urban renaissance, as well as a whole range of viewpoints on new buzzwords: gentrification . . . reinvestment . . . displacement. At best,

In the 1970s the Taylors, a savvy young couple, both working and renting in Boston, bought an old southern New Hampshire farm house with their savings for weekend use. Friday night they would drive up, and on Monday morning they would return to their urban careers. As their earnings mounted, instead of paying off the low interest mortgage on the farm house, they decided also to buy in the Boston area using for half the downpayment a loan from Mrs. Taylor's father. Rather than buying a \$90,000 single family suburban home, they chose a well-worn six-unit, inner city apartment building, which the elderly owner, frustrated by rent controls, was willing to "sacrifice" for \$90,000, or \$15,000 per unit. They improved each unit for sale as a \$40,000 condominium,



these stories only vaguely connect the idea of urban recycling with national concerns like energy conservation. How all these issues actually interrelate is not immediately apparent, yet each isolated crisis seems to call for public action. Little can be done to quickly change demographic realities or energy scarcities, and certainly the urban revitalization seems welcome after a score of years in which various experts sounded the death knell of cities. Few now realize that an outdated federal tax code that strongly favors investment in housing is a major underlying factor shaping these new patterns, and one factor entirely in our power to alter.

**H**ow the issues are joined can best be grasped through a hypothetical illustration. Consider the interplay between four families: the Ryans, Mrs. Elliot, Mr. Malcolm, and Mr. and Mrs. Taylor.

remaking the top unit into a choice penthouse for their own residence. Tax shelters and deductions open to all in higher tax brackets helped them to buy this building—as well as inducing others cheerfully to buy the condos from them at prices that literally gave the Taylors their new penthouse. Since Mr. Taylor is a salesman using his home as a business address, the couple found they could even charge many of the regular carrying costs on their unit—heat, insurance, and utilities—as business expenses.

This fortunate couple is now occupying space that formerly would have housed four people in Boston and a family of six in New Hampshire. Those without a grasp of federal tax laws may wonder how they can afford this enviable lifestyle—unaware that it not only costs them much less than rent for an ordinary dwelling, but ultimately also leaves them with title to some "price-

1981  
JANUARY  
FEBRUARY  
45

less" property. Note that they rely on the savings of others to finance their mortgages. When capital appreciation is considered, their costs are only \$23 per month. (see box, p. 47).

Nearby, Mrs. Elliot, a widow with grown children, recently sold the family home in the suburbs, netting \$40,000 which she planned to invest while moving to a convenient city apartment in a pleasant location. Her tax adviser quickly demonstrated the advantage of buying a condominium instead. First, by reinvesting in the condo, she will pay no taxes on the capital gain from the sale of the home. Second, if she invested the \$40,000 in stocks, she would realize (say) \$4,000 in annual dividend income, which would be taxable. Instead, she pays no tax on the imputed income she gets from her new condominium apartment, and she even gets tax deductions. Finally, as a condominium owner, she will enjoy appreciation of her new investment that is likely to far exceed the best appreciation she might have enjoyed by investing in stocks. The condo wins hands down (see box, p. 47).

What cinched it for Mrs. Elliot however, was the shabbiness of the available rental apartments, contrasted with the proliferation of newly converted condos offered by fine young couples like the Taylors. Oddly, something seemed to be driving all the nicest apartments into condo conversions. So she moved into a dwelling that once housed a large working class family, even though she won't be using it five months of the year while she is wintering in Florida.

That family, the Ryems, are still looking for a place to live. The choices are not good. They have mixed feelings about buying, but it's a moot choice: the cheapest possible house would require a \$7,500 downpayment. They don't have anything like that, and there's nobody in the family to lend it. As working, churchgoing people, they reject the

prospect of moving into a housing project. Unlike the last time they looked for an apartment in their neighborhood, they find available rentals few and far between and rents out of sight. There is one subsidized homeownership program with a very long waiting list. They'd prefer to pay their way in their old neighborhood. They wonder what happened to all the \$300-a-month apartments.

In the meantime, Mr. Malcolm, a traditional builder with an option on an attractive piece of suburban land, is driven frantic by countless costs—land costs, spiralling material and labor costs, financing and carrying costs—as well as the prospect of dealing with wetlands reviews and zoning appeals which could easily delay him into bankruptcy, as he tries to decide whether to build traditional single family homes, garden apartments, or stylish "planned unit developments" (called PUDs in the trade). He faces so many uncertainties that he finds producing new housing a very discouraging way to earn a living. He was also counting on his financial backer to support him in negotiating the hurdles of building new housing. His banker, however, recently stung by redlining charges, also began to shift his attention to investing in urban revitalization through people like the Taylors and Mrs. Elliot, leaving Mr. Malcolm without financial backing. As it becomes harder and harder to make a living building new housing, Mr. Malcolm is also considering a shift to the condo conversion business.

In part, the dynamics buffeting these families are the consequences of inflation. What most critics fail to realize, however, is that housing inflation itself is heavily fueled by the tax advantages. And these have nothing to do with race, ethnicity, land scarcity, lumber costs, changing demographics, or changing housing fashion. They are entirely the creations of public policy.

Many Americans, when asked about government housing assistance, think only of public housing and subsidized developments and ignore indirect tax expenditures. If they do consider the latter, they immediately think of obscure tax dodges they consider shady, such as double-declining balance depreciation and tax syndication.

The reality is entirely different. In 1979, homeowner deductions by people like themselves amounted to \$19.6 billion, while investors' deductions were only \$1.7 billion. Housing and community development programs totaled less than half of tax subsidies in 1979—\$9.2 billion, of which \$3.6 billion were payments for all rental subsidy, \$3.2 billion for community development block grants, and \$2.4 billion for moderate income mortgage subsidies. Of the \$30.5 billion in direct and indirect expenditures (\$9.2 plus \$21.3 billion), homeowners received \$19.6 billion, 64.3 percent, close to

THE TAYLORS' CONDOMINIUM	
\$ 90,000	purchase price of 6-unit rental
100,000	fix-up (\$15,000 x 5 units + \$25,000 for penthouse)
5,000	legal fees
5,000	miscellaneous carrying costs
\$200,000	Total
Offset by \$200,000	Yield from sale of 5 condominiums at \$40,000, giving the Taylors their penthouse condo free and clear.

Congressionally voted outlays, of course, are subject to far more budgetary scrutiny and debate than tax expenditures. A double standard divides indirect tax expenditures from the directly budgeted programs. The tax deductions are handled automatically by each eligible household

on an annual basis, while housing assistance is fought over publicly and twenty- to forty-year run-out costs are mentioned by opponents to stress the heavy subsidies involved, as if they were direct handouts to the poor. Actually, most of the money goes to union pay scale labor and white collar professionals who collaborate to produce and manage the housing. If the actual benefit of the budgeted

The main benefits of owning rather than renting an apartment lie in the favorable federal income tax treatment of home ownership. The owner can deduct mortgage interest, not only on the acquisition loan but also on the second mortgage. Not only are mortgage interest and property tax expenses deductible from household income before it is taxed, but ownership functions as a savings program whose gains can be partially exempted or taxed at lower rates.

The costs of owning a condominium include property taxes, interest, the lost interest on capital tied up in the downpayment, utilities, and the fees paid for the mortgage and the condo. An application of 15 percent has been factored in, and each case has included neither the 20 percent downpayment nor the mortgage interest deduction. These are the investments that

the owner ultimately gets back.

If the annual rate of appreciation of these condominiums were 20 percent—as seems more likely in the period 1980-85 than the 15 percent assumed here—the investment is even more favorable to the owners. This economic catalyst for the house hinges on tax deductions rendering the effective mortgage rate below the rate of market appreciation.

	\$40,000 condominium		\$60,000 condominium penthouse	
	\$8,000 downpayment (20%)		\$12,000 downpayment (20%)	
	\$32,000 mortgage (12%, 25 yr)		\$48,000 mortgage (12%, 25 yr)	
	annual	monthly	annual	monthly
<b>CAPITAL COSTS</b>				
Property taxes (5%)	\$2,000		\$3,000	
Mortgage payments				
Annual payments	\$4,044		\$6,068	
Applied to principal	<u>218</u>		<u>324</u>	
Mortgage interest	3,828		5,742	
Foregone 10% interest on downpayment	<u>800</u>		<u>1,200</u>	
Total Capital Costs	8,628		9,942	
Condo fees and utilities	<u>1,200</u>		<u>1,500</u>	
<b>TOTAL ANNUAL COSTS</b> (before tax breaks)	7,828	\$852	11,442	\$954
<b>TAX DEDUCTIONS</b> (BENEFITS)				
Total tax sheltered expenses x 32% tax bracket saving (applicable to \$29,000 taxable income)	\$6,628 x .32		9,942 x .49	
	2,452	204	4,872	406
<b>NET HOUSING COSTS AFTER TAX BREAKS, BEFORE APPRECIATION</b>	5,376	448	6,570	548
Annual 15% appreciation:	+8,000		+9,000	
capital gains tax less	<u>-900</u>		<u>-1,350</u>	
Appreciation Benefits	5,100	425	7,650	638
<b>NET HOUSING COSTS</b>	\$276	\$23	<b>NET HOUSING GAIN</b>	
			1,060	\$90

1981  
JANUARY  
FEBRUARY  
47

housing programs is traced, it will be seen that the lion's share goes to more advantaged persons.

The direct outlays committed to the housing program in the federal budget have grown so little, they have barely kept pace with inflation in construction costs. Tax expenditures, however, automatically rise with mortgage interest rates and property taxes, compounded by the relief tax shelters provide. As a result, tax expenditures are edging toward \$30 billion in 1981, growing by several billion dollars each year.

The federal provisions favoring housing investment include the following:

- Resident owners pay no taxes on the value of the housing services their homes provide them (their "imputed rent").
- Resident owners may take unlimited deductions from their federally taxable income for mortgage interest and local property taxes.
- Capital gains from the sale of a home may be deferred indefinitely if the home is traded in on another home; owners fifty-five years old and over may cash in up to \$100,000 of their gain without paying any tax on it.
- For developers and investors, other shelters, such as accelerated depreciation, encourage investment and trading.
- For certain structures, historic preservation tax deductions are available.

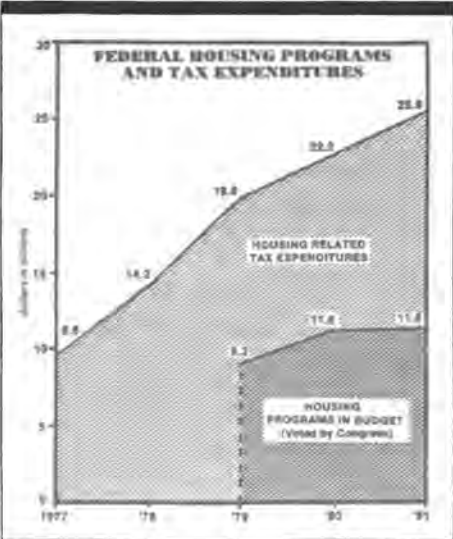
The impact of these tax provisions is doubly

Homeownership today has become a form of patrimony, available mainly to the children of the affluent.

regressive. As we have seen, the pattern of housing that results from the uses of tax benefits helps the well-to-do accumulate more wealth, while withdrawing money available to others. In addition, they also tie up savings in existing housing rather than channeling them to more productive investments.

Of \$22 billion in homeowner deductions taken in fiscal year 1980, one-quarter, or over \$5 billion, went to those with annual incomes over \$50,000. Although the precise amount is not known, a sharply increasing proportion of these deductions are now claimed for turnover and investment in existing housing. Someone with a \$100,000 mortgage at 14 percent and \$6,000 in local property taxes—a not uncommon situation in the new urban frontier—is sheltering over \$20,000 in income from federal taxes: \$14,000 in interest and \$6,000 in property tax deductions. This shelter is more than the entire income of the average tax-paying family in the same year. In other words, households easily in the 40 percent tax bracket were it not for such loopholes, are taking their housing deductions in ways that do not add to the overall housing stock. Even their capital gains in this endeavor are sheltered as long as they keep the investment in their residences. And if they "liquidated their housing investments," that is, took their money out, they would only be subject to capital gains tax rates, which shelter 60 percent of the gain, rather than the higher income tax rate applicable to their particular tax bracket.

While there is some public awareness that tax favoritism for housing disproportionately benefits the well-to-do, it is not widely recognized that these tax benefits are also a prime cause of housing inflation. In addition to directly bidding up the price of housing itself, this system is also responsible for bidding up the cost of borrowed money. A generation ago, it made economic sense to save up for a downpayment on a home, borrow as little as possible, and expect eventually to pay off the mortgage. The pot of gold at the end of the twenty-year mortgage term was the result of pay-



ing off the mortgage. The ethic involved getting free of debt.

Today, the pot of gold is to maximize appreciation, and the strategy is to borrow as much as possible. Savings produce negative interest, while borrowing produces tax deductions. One comes up with the downpayment by scrounging from one's

parents, not by saving up for it. Consider the class consequences of this shift: homeownership, which a generation ago was widely available to the working poor, is today a form of patrimony, available mainly to the children of the affluent.

With fewer people saving less and more people borrowing more, it is no surprise that the cost of

FEDERAL HOUSING PROGRAMS AND TAX EXPENDITURES					
HOUSING PROGRAMS IN THE FEDERAL BUDGET, FISCAL YEARS 1973-1981					
(dollars in billions)					
	1978	1980	1981		
1—Community development block grants (CDBG)	\$ 3.2	\$ 3.6	\$ 3.8		
Urban development action grants (UDAGs)	-	.2	.4		
2—Housing payments for all subsidized units under all HUD assisted programs	3.8	4.4	5.5		
Other (Section 312, Self-help, etc.)	2.4	3.5	2.1		
TOTAL OUTLAYS (NET)	8.2	11.6	11.8		
(Direct housing expenditures)					
HOUSING RELATED TAX EXPENDITURES, FISCAL YEARS 1977-1981					
(dollars in billions)					
	1977	1978	1979	1980	1981
Home Owner Deductions					
3—Mortgage interest on owner-occupied homes	\$ 4.8	\$ 7.8	\$ 10.7	\$ 12.5	\$ 14.7
4—Property tax on owner-occupied homes	4.2	5.5	6.8	7.7	9.0
Residential energy credits	-	-	.7	.5	.8
5—Deferral of capital gains on home sales	.9	1.0	1.1	1.0	1.1
6—Exclusion of capital gains on home sales	-	.1	.3	.5	.8
SUB-TOTAL	9.8	14.2	18.8	22.2	26.8
Investor Deductions					
7—Expensing of construction period interest and taxes	.2	.8	.8	.7	.7
Excess first year depreciation	.1	.2	.2	.2	.2
Depreciation on rental housing in excess of straight line	.3	.4	.4	.4	.4
Five-year amortization for rental housing rehabilitation	-	-	.02	.02	.03
Preservation of historic structures	-	-	.02	.04	0.7
8—Exclusion of interest on state and local housing bonds	-	.3	.5	.8	1.6
SUB-TOTAL	.8	1.5	1.7	2.1	3.0
TOTAL (housing related tax expenditures)	10.2	16.7	21.3	24.3	29.8
All federal tax expenditures	133.9	158.0	176.9	203.4	
Housing as a percent of total	11.7%	13.4%	13.8%	14.2%	

Note: Tax expenditures are defined in the budget as "losses" of tax revenue attributable to provisions of the federal income tax laws that allow a special exclusion, exemption, or deduction from gross income or provide a special credit, preferential rate of tax, or a deferral of tax liability affecting individual or corporate income tax liabilities.

Source: Based on data compiled by Low Income Housing Information Service from Special Analyses, Budget of the United States Government 1980 - 1981



The nest has become the nest egg.

mortgage money is bid up—which automatically produces still bigger tax deductions, resulting in bigger federal deficits, and increases in the housing component of the consumer price index. This in turn triggers higher social security checks, still bigger deficits, and largely futile demands for more direct housing subsidies to the poor—who are the only ones left off the band wagon.

The effect of inflation on savings and borrowing has been widely remarked by the political conservatives now in power. But the underlying impact of tax write-offs on the entire dynamic has been largely ignored. It would be folly to pile on additional tax write-offs to stimulate savings, while ignoring those that feed inflation by counting on inflation.

In part, the interaction between tax policies and housing inflation has been misunderstood because it is full of paradoxes. For example, one economist, Patric H. Hendershott, has developed an abstract econometric macro-housing model from which he concludes that higher housing costs nonetheless favor homeownership over rental.<sup>8</sup> He estimates that without this bias 4% to 5 million fewer of the nation's 77 million households would have been homeowners at the end of 1978. This becomes plausible when one realizes that currently in many sections even a 14 percent mortgage is below the rate of housing appreciation. Moreover, the household which claims deductions actually experiences this 14 percent mortgage as costing only 9.52 percent if it has over \$24,600 taxable income (placing it in the 32 percent tax bracket), and as little as 7 percent if it makes over \$45,800, putting it within the 49 percent tax bracket. James M. Poterba, of the National Bureau of Economic Research has also modeled the housing system, and concludes that these tax-inflation interactions could be responsible for as much as a 30 percent increase in housing prices.<sup>9</sup>

Looking at neighborhoods in a whole range of cities across the nation, it is clear that such housing appreciation does not occur evenly across the board. In areas of perceived housing shortages, prices are inflated sharply because housing is

increasingly bought as a hedge against inflation. Here, the nest has become the nest egg, to be protected at all costs. The more people who hear of appreciation in an area, the more people who want to climb aboard there. Meanwhile, disinvestment continues in nearby neighborhoods. This urban rediscovery began with Victorian "treasure" but feeds on adjoining stock, including rental apartment stock.

The clearest insight into the way housing values inflate is gained through monitoring the actual condominium conversion process. Typically, apartments renting for \$250 a month are worth at best four to six times annual gross rent as apartment investments, that is, \$12,000 to \$18,000 per unit because this market is depressed. However, marketed as condominiums, the same units start at ten times annual gross rent, or \$30,000, and maintain their value in the face of inflation. Rent controls, where present, may exaggerate the disparity. Most of the difference in value is not due to internal physical improvements, but to the homeowner tax deductions (see box). To buy the \$30,000 condominium typically requires a \$6,000 downpayment (20 percent). The direct annual costs are around \$6,000 (or \$500 monthly) including \$1,500 in property taxes, \$2,900 in mortgage interest, \$600 in foregone interest on downpayment, and \$1,000 in condo fees and utilities. All but the last are tax sheltered, adding up to \$5,000. For the buyer in the 32 percent tax bracket, that is worth \$1,600 annually, or \$133 monthly off the \$500, reducing his monthly housing outlay to \$367. Appreciation is a further offset to the monthly costs that is also tax sheltered, although this is only realized upon sale. Here it is easy to see how the market favors conversion, turning \$12-18,000 rental headaches into appreciating \$30,000 condos that also radically improve the local property tax base. The municipality and new buyers all benefit from this urban alchemy; but those squeezed out by the process may not allow the alchemy to proceed. And their concerns must be addressed.

Tempering the strong tax advantages for those in higher tax brackets would moderate the dangerous conversion momentum that is developing in many urban areas. Right now, the homeowner deductions unnecessarily drive up urban housing values. Those already owning feel entitled to this appreciation, but it results in excluding everyone else and at the same time diminishing available housing stock.

In theory, tax subsidies to a particular sector ought to induce greater supply, in response to the increased after-tax attractiveness of the investment. This is the theory of mineral depletion allowances, for example, or of investment tax credits for industry. But as we have seen, the theory seems to break down in

<sup>8</sup>Patric H. Hendershott and James D. Shilling, "The Economics of Tenure Choice, 1955-1979," (Purdue School of Management, 1980). Forthcoming in *Research and Real Estate*, Vol. 1 (JAI Press, Inc.).  
<sup>9</sup>James M. Poterba, "Inflation, Income Taxes and Owner-Occupied Housing," Working Paper #553, National Bureau of Economic Research, September 1981.

the case of housing. The tax benefits seem to stimulate more demand, but not more real supply. And the result is just what freshman economics might suggest—higher price. There are sharp differences between growth regions, decline regions, and back-to-the-city movements in different areas, but in general a basic underlying pattern holds. In the traditional suburban areas, antigrowth attitudes, laws to protect the environment, and zoning now combine to discourage production of new housing. As illustrated by Mr. Malcolm, a host of costs and uncertainties confront traditional developers.

At the same time, in the urban areas it is more difficult to find available, suitable space, as well as

demand than supply, as it enters areas that were unthinkable ten years ago.

Public policy now tends not to let these longer term dynamics work themselves out, but is called upon to respond directly and immediately to these feelings of "too tight" here and "too loose" there. An appropriate local policy role is to balance out the demand in different neighborhoods; that is, to match supply with demand. However, this involves more than simply attempting to control rents and condo conversion. It involves not only providing enough of the right kinds of housing, but also at times influencing people's desires. As long as a perceived supply shortage persists, those in the higher tax brackets will have an unbelievably strong



to meet the requirements of building codes and to pay prevailing union scale wages, both of which have been inflated by past assistance programs. These urban and suburban factors all put the cost of new construction out of reach, often well above \$70,000 per unit, and make condo conversions of existing stock very marketable.

In the short run, demand in a neighborhood housing market resembles a tray of marbles. In weak markets, there are too few to cover the bottom, and everything seems quite loose. In strong markets, even if there are only a few marbles too many, displacement results, and things will seem extremely tight. However, in the longer run the stock is quite responsive, for example, creating additional units within existing housing when needed. Even the back-to-the-city movement can be interpreted as a long term response to more

incentive—provided by our current tax laws—to over-invest in scarce housing. This super-heating incentive has been latent, waiting only to be exposed by a housing shortage, and encouraged by the "tax bracket creep" induced by inflation. Quick, responsive, and efficient ways to expand the desirable housing supply—ways such as permitting accessory apartments in larger existing homes, are needed. However, the federal homeowner deductions that now encourage "haves" to buy housing, indirectly displacing "have-nots," must also be modified. Just to provide more rent supplement outlays (Section 8 certificates) for use in existing housing so that low and moderate income households can remain as renters would be futile and only fuel the inflationary housing cost spiral. When the value of the assistance was factored in, local market prices would only rise further.

**E**nlightened federal housing policy should address the investor deductions now, rather than waiting for local municipalities to enact rent controls, bans on condo conversions, and anti-speculation taxes which merely address the symptoms of the underlying dynamics. Here is the central housing dilemma that should be addressed by policy makers:

Those in the highest tax brackets benefit most from the deductibility of interest and local taxes as well as capital gains provisions. Wherever housing appears scarce, its price has soared as housing becomes an inflation hedge for the affluent. This makes it less and less affordable to tenants and households just entering the market, and cancels out the effectiveness of the direct housing subsidies. Extending deductions to tenants would only increase tax revenue losses and involve double-counting, since deductions already are claimed by apartment owners—so that is not a solution.

Urban rediscovery—by people like the Taylors, Mrs. Elliot, and greenlining bankers—now interacts with the current tax provisions, allowing the “haves” to take over housing from the “have-nots,” as middle and upper income households get their rising benefits virtually automatically and invisibly while the programs for low and moderate income households are constrained and limited by continuous congressional scrutiny and public review.

As a remedy, a number of observers have proposed across-the-board tax credits in place of the current deductions that benefit the affluent the most. The Urban Institute, for example, recently has examined the effects of a 25 percent tax credit in place of the present homeowner provisions. Under a tax credit, a homeowner would simply calculate his or her tax liability without housing deductions. From this liability would be subtracted 25 percent of the annual mortgage interest and property taxes. The Urban Institute chose the 25 percent rate because it maintains a constant flow of dollars to the federal treasury, but still reduces taxes for all but the wealthiest owners.

This tax credit model, developed by Michael Andreassi and Duncan MacRae of the Urban Institute, suggests that those above the 25 percent bracket would experience an increase in taxes, those below would experience a decrease, and renters would not be affected directly—since the credit applies only to owner-occupants. However, implementing such a substitution would also result in a significant increase in housing consumption by both middle and lower-middle income households. Lower income households would benefit indirectly as middle income households shift their demand away from lower quality housing.

Conceivably, there was some moral justification for giving the affluent the most tax benefits on the theory that they moved into the newest and most costly housing, passing used housing on to those with less income. Now that some of the most astute have stepped outside that housing logic to pick up urban bargains, that logic falters.

In setting utility rates, “life-line” rates are a new, environmentally sound concept. Inverting the traditional notion of economies-of-scale, the proposed rates are cheapest for a basic allotment, and each household pays more if it requires service beyond that allotment. In housing a cap to limit the tax credit to the median priced house would work the same way. Every household would be aided in obtaining a “basic house”; those who wanted more would pay for the extras without benefit of additional tax credits.

Capping tax credits, at least for all existing housing, would foster better utilization of the housing stock, curb urban speculation and displacement, and decrease losses to the Treasury because it would curtail further increases in tax expenditures for the most affluent.

The idea of tinkering with homeowner deductions is still unthinkable to most. Such people probably think the new urban twists, including displacement, windfall profits, and conflict between rich and poor are to be handled with traditional tools like federal housing programs. This ignores changed circumstances and underlying causes.

The current system is producing urban investment sanctuaries for the affluent at the expense of others instead of enough new housing. If the national tax laws are not modified, this process will lead to an urban population transfusion along with the end of conventional rental housing, and flashes of class warfare along the boundaries. Many urban areas will be revitalized with windfall gains for the advantaged, but many more of the have-nots will become squeezed because insufficient suitable new housing was developed. The Reagan administration has been heralded as sensitive to the impact of taxes on economic behavior. As housing tax expenditures break the \$30 billion barrier, this issue will test both the insight and sincerity of the new administration. ■

Tax subsidies promote sanctuaries for the affluent, the end of rental housing, and flashes of class warfare.

BOSTON'S HOUSING IN THE 1980's; CHALLENGES AND OPPORTUNITIES  
 Boston Redevelopment Authority Rolf Goetze September 1980

#### IV. Investor-owned, Multi-family Stock

One third of Boston's housing, some 70,000 units, is in investor-owned properties containing multiple dwelling units. It is appropriate to begin detailed discussion of Boston's housing with the apartment stock because here the behavior of the many participants in the housing scene is more visible. Investors and managers keep clear financial records and there is more rapid resident turnover than in owner-occupied properties--so the changes in this market can be monitored more easily.

The changes have been profound and unexpected. In the early 1960s properties were valued at many times their gross annual rent and were held by countless long-term owners. They were managed for a steady return on equity. Some were still financed by local lenders through non-amortizing mortgages--in effect, the bank simply rented the investor-owner the risk-free portion of the necessary capital. Traditionally, Boston "blue bloods" also invested in housing that was occupied by working class families and managed by staid firms like Niles, Hunneman, and R.M. Bradley.

As Boston's demographic profile began to alter towards a disproportion of students, minorities, and elderly, these changes impacted the apartment stock. In student areas, from Back Bay through Kenmore Square to Brighton, a sudden improvement in income/expense ratios induced new types of owners to buy for capital gains. At the same time, families began to leave apartments to move into triple deckers and single family homes of their own. In other areas where the income/expense ratio worsened, limited rental income and racial change caused transfer of multi-unit properties to "slumlords", those who could profit at the margins between reduced income and rising expenses.

Much deterioration occurred in different ways throughout the multi-unit stock from 1965 to 1975, prompting an array of public sector responses: the

creation of the Housing Inspection Department, a Boston Board of Rent Appeals, then a tougher Rent Control Administration and a Housing Court. Already in the 1960s, Federal programs, under the newly created Department of Housing and Urban Development, were brought into play to demonstrate rapid rehab in Roxbury and the South End on the mistaken assumption that physical obsolescence (rather than sharp and unpredictable shifts in income/expense relationships) had caused the blight and abandonment. Several owners discovered that there were profits in running buildings down rapidly and then arranging for rehabilitation under the section 221(d)(3) program. Many more wondered why they should struggle to continue to obtain costly market rate credit from increasingly reluctant local lenders, when the less scrupulous seemed to be profiting on easy, below market credit extended by the Federal government. The way the limited federal assistance was extended to the most distressed properties fostered disinvestment and deterioration of more marginal properties.

In the early 1970s, some of the traditional owners decided to sell after being driven frantic by the off-again, on-again nature of the city controls on rents and evictions, the rising taxes and fuel costs, and the lack of reliable conventional financing. Some of these owners stressed the absurdity that rent controls prevented a realistic pass-through of capital improvement costs to conserve energy, but allowed heating costs to be passed on to tenants. In this red tape jungle, sacrifice sales at only two to three times gross annual income and fires of suspicious origin began to occur. This signalled that the current value of many multi-unit properties had actually dropped, below their insured value or the outstanding balances of their mortgages.

On the threshold of the 1980s, additional twists occur. Some members of the baby bulge generation, those born between 1945 and 1965, are leading the way back to the city, to new urban lifestyles. As their numbers helped raise

the price of suburban housing out of reach, their more intrepid members have come to try out new locations and living patterns including urban communes in Victorian mansions, condominiums, and even city apartments again.

As many more of this generation pursue a career and postpone childraising, there is a sudden flood of more affluent households that prefer urban location and, at the same time, seek the tax benefits of homeownership. Condominium tenure is tailored to their specifications, and already some of the most suitable multi-family stock is being converted to meet this new housing demand of the 1980s.

The value of existing housing has generally been a function of the housing market, that is, the product of the people's willingness to pay and mortgage availability. Just as the lack of enough households seeking urban housing contributed to overall slack central city housing demand and abandonment in the 1960s, so the coming period of unprecedented demand promises to create an extremely tight housing market with soaring prices in the 1980s. In the 1960s, the mobile middle class simply avoided urban problems by moving out, in effect bequeathing the disadvantaged a city of low-priced apartments they no longer valued. But in the 1980s, with housing suddenly scarce throughout the region, various classes will begin competing for the available housing.

"Displacement" heralds this new issue. The coming tug-of-war among those with economic interests, those with political strength, and those who cannot afford to move could become serious and unpleasant if mediating institutions cannot reconcile these competing interests into neighborhood harmony. Already some flare-ups and disruptions have occurred. Rental housing begins the 1980s with a legacy of mistrust between income classes (as well as between the public and private sectors) generated by policies that will be hard to change.

Income tax incentives now virtually urge all households in the 30% and higher tax brackets to own their own residences, exacerbating the potential strains between young, more affluent condo seekers and existing tenants.

#### The Widening Gap Between Income and Expenses

Boston's apartment inventory, as rental housing to those residing there, is in serious jeopardy now. Current cash flows in many cases offer only marginal returns to investors, while the multiple headaches of financing, paying taxes, and meeting the frequently unrealistic demands of tenants (or of their political advocates) have grown year by year. Whether one examines income/expense statements on a case by case basis or estimates the general impact of inflation through interviewing owners, some \$40 more per month are required on average (on the typical unit renting for \$300/month including heat) to bridge the widening gap between adequate income and expenses.

One might think public assistance like Section 8 could be employed to avoid requiring tenants to pay more. However, this assistance neither provides sufficient resources nor is flexible enough to bridge the gap. Although \$40/month is less than one tenth of the current level of public assistance where the Section 8 program does apply, this subsidy is inappropriate because it is currently administered to offer dramatic help to a relative few. The Section 8 program only provides several hundred deep subsidy commitments of around \$500 per unit monthly (that's over \$6,000 per dwelling per year!) plus several score of BHA "finders-keepers" certificates for existing housing. As now administered, Section 8 cannot help a lot of people a little bit. (The shortcomings of the public assistance programs are examined more fully in Chapter VII.)



Multiplying the 70,000 units in the private multi-family rental stock by the estimated \$500 required annually per unit to bridge the income/expense gap indicates that some \$35 million in annual assistance would be needed just to supplement the rents residents are now paying to the point where current owners would receive sufficient return to continue. However, unless suitable new programs and sufficient public resources can be found, present residents will have to pay more rent to remain in decent housing.

The future outlook is even worse. Inflation and soaring housing demand threaten to place unprecedented pressures on this apartment stock in the coming years. Everyone has already heard of rising heating costs, but normal ownership turnover also touches several thousand of these units annually, depending upon such factors as the local market climate and credit availability. At 12% mortgage interest rates, the rent of each apartment sold and financed to continue as rental housing must rise between \$50 and \$120 monthly just to cover the new interest costs. To repeat the above points in other words, to maintain this rental housing under current owners (who often have little mortgage indebtedness) requires \$40 more in rent per month for them to net an adequate return after expenses, but if sold, rents would have to rise \$90 to \$160 per month because of new carrying costs.

Because of the impending general housing shortage, the value of the present apartment stock is rising in spite of its recent history of deferred maintenance and unpredictable and frequently negative cash flows. Buyers anticipate they can sell to a higher income class in the future. Unless enough more housing is produced elsewhere in the region (which is now unlikely), investments in housing promise to appreciate as desperate home seekers of the 1980s scramble to obtain shelter.

#### New Trends Require New Responses

Conversion of this stock to condominiums, in spite of front page publicity, has not yet become a major factor in reducing the low and moderate income housing stock. Inflation, abandonment, and arson are still the more serious eroders of the low and moderate income apartment stock. Through 1978, of the several thousand apartments experiencing ownership turnover in any year, less than 300 units on average were converted to condominiums. However, in 1979 this rate of condo conversions rose towards 1,000 annually. As the regional housing demand sharpens, new demand for urban apartments threatens to save this stock from deterioration by simply taking it out of the low and moderate rental inventory. Preventing sales and banning condominium conversions cannot preserve this stock for its current residents. If these tenants will not or cannot pay their current owners more rent or assist in reducing costs, then the general housing shortage, high interest rates, and market uncertainties will compound to sharply exacerbate their predicament. Since it is too late to build enough new housing and sufficient appropriate public subsidies are unavailable, the only effective policy option open to the city in the short term is to treat the long term owners it now has with much more deference, as an important asset, rewarding them for housing long term tenants and encouraging them not to sell their properties now, even as apartments, to any new owners. Only in this way can the city avoid transposing these properties into a much higher rent class.

Such an about face, in effect praising current owners and ministering to their very real concerns so they will not sell when opportunity knocks, will not come easily in a city sharply polarized by a decade of media debate about rent and eviction controls. However, the alternative of inaction will simply allow more and more of this stock to go to young households willing to commit

an almost unthinkable \$600 to \$1,000 monthly towards urban shelter through tenure innovations that will inevitably be developed in the next few years of housing scarcity. Once housing desperation sets in, the more advantaged will seek to occupy much of this stock in one way or another. The most effective safeguard (short of direct ownership by the present residents themselves through cooperatives or as their own condominiums) is to encourage current owners to stay on for another decade wherever possible until the tidal surge of new housing demand finds more constructive ways to settle down than by displacing the less advantaged.

There have been no new additions to this investor-owned low and moderate income rental stock because of the policies of the 1970s, while normal ownership turnover, abandonment, arson, and condominium conversions as well as rehabilitation under subsidy, are seriously eroding this inventory. To stand by, trying to prevent arson, sales, or condominium conversions, while debating code enforcement or lack of enough section 8 assistance, will prove futile.

Since the current owners can sell to other interests as soon as the mortgage crunch eases, they will not stand for much more regulation. The most effective approach now open to the city is to concentrate across the board on minimizing the uncertainties and red tape confronting current owners and managers: future property taxes, credit availability, rent regulations, eviction controls, moratoriums on conversions, etc. Acting case by case will not be effective. The real estate interests that jointly served to provide rental housing in the past have come to expect the worst, leading them now to either seek escape or to act in ways that only hasten deterioration of the multi-family stock. Much of the blame for this situation falls on government policies devised during a period of slack demand, without a broader understanding of the changing housing market forces, and unaware of the new ramifications of the impending housing shortage. The future will be quite different.

The future of Boston's apartment inventory will be largely determined by the predictability of future income/expense relationships. If these become more favorable and can be held steady, the market will eventually adjust to resume providing well-maintained, albeit higher priced apartments which yield their owners a fair and predictable return on equity. Normal additions to this stock will then also resume without requiring such intensive and probably harmful subsidies as Section 8 or 121A tax agreements that benefit a few at everyone else's expense. If, on the other hand, the erratic surges in costs continue as properties are regulated case by case, the outlook dims: deterioration will accelerate in the controlled apartments alongside inventive attempts to pass ownership on to the more advantaged.

To understand how the above conclusions were reached it is useful to consider the impact of recent trends on some of the most severely stressed investor-owned properties. The trends of the 1980s can be previewed in this illustration; the complex interrelationships between disinvestment, taxes, rent control, market change, speculation, and condo conversions can best be grasped through such actual examples. The balance of this chapter traces market changes on a prototypical apartment property, suggests how different owner types signal these changes, and then concludes with some general policy inferences.

#### Two Contrasting Building Case Histories

In 1976 the BRA Research Department compiled detailed histories of representative multi-family buildings in various neighborhoods. The most extreme variations showed up in the Fenway. Here, within walking distance of Symphony Hall, Northeastern University, and the Boston Museum of Fine Arts, a neighborhood called Seven Streets experienced fifteen years of traumatic changes as

students displaced long-term family and elderly tenants, only to find that minorities, then hookers and addicts, moved in on their heels. Sensationalizing reporters called it a disaster, similar to the South Bronx.

Actual data were obtained from over forty multi-family properties in the immediate area. Since no two buildings are ever identical, the many actual experiences are presented here as two sample alternatives related to a prototypical ten-unit property. The first alternative reflects the experience of buildings in the area that remained in single, long-term ownership; the second shows the impact, on the same building, of ownership turnover taking advantage of appreciation.

Data were compiled from the records of the Boston Tax Assessor and Collector-Treasurer, Rent Control Administration, Registry of Deeds, the Housing Court, and interviews with owners, tenants, managers, investors, lenders, appraisers, and some newspaper reporters.

#### The Experience with a Single Owner

Table IV-1 reveals the change from 1964 in a prototypical ten-unit apartment structure. It shows gross rent, operating expenses, and property taxes in 1964 and 1976 as well as some financial indicators used in conventional analysis. Even though finances seem a bother, the analysis is worth following closely because it leads to significant insights.

Table IV-1: One Owner Ferryway Building Financial History (10 Apts)

	1964	1976
1. Annual Gross Rent	\$10,000	\$24,000
2. Operating Expenses	3,300	8,300
3. Property Taxes	2,200	8,000
4. Owner's Net Income (before financing)	4,400	7,700
5. Cap Factor	.088	.128
6. Imputed Market Value	50,000	60,000
7. Outstanding Mortgage	35,000	30,000
8. Owner's Equity	15,000	40,000
9. Gross Rent Multiplier (GRM)	5.0	2.5

Annual gross rent (line 1) reflects a change in monthly rents from around \$83 monthly per apartment in 1964 to \$200 in 1976, roughly in step with inflation over the period. Operating expenses (line 2) more than doubled, while city taxes on the property (line 3) more than tripled. The owner's net income before financing (line 4) increased by 75 percent, not in keeping with inflation, because operating expenses and property taxes have claimed more than their share of the increased rents.

Owner's net income (after operating expenses and property taxes but before financing) indicates to real estate investors what a property is worth. When any similar residential property sells on the market, its net income can be related to its value to determine the capitalization factor appropriate to that type of housing market at that time. For example, a property with a net income of \$5,000, selling for \$50,000, has a cap factor of .10 (5/50). This cap factor can be derived from surrounding sales. It rises as interest rates and risk increase, and is typically .03 - .05 above the mortgage interest rate. So when interest rates are 9%, the cap factor is likely to be .12 - .14.

The market value of this particular property has risen only marginally from \$50,000 to \$60,000 over twelve years (line 6, based on dividing line 4 by line 5, the appropriate cap factor). This investment has been yielding its one owner a steady but declining return on equity, as the value of the structure

declined when measured in constant dollars (\$60,000 in 1976 has less purchasing power than \$50,000 did in 1964). This investment resembles a high yield bond in some ways, but is in fact much riskier.

The gross rent multiplier (GRM) has dropped from 5.0 to 2.5 (line 9, obtained by dividing line 6 by line 1). This is ominous. At a GRM of 5.0 an investor sees a long time horizon over which he expects capital improvements to pay back. However, at 2.5 he is discouraged from further investments that do not bring a quick return.

#### The Experience with Owner Turnover

Table IV-2 indicates what has happened to a comparable property that changed hands or was refinanced to enable profit taking. It contains two basic differences from the single owner building shown in Table IV-1. Data for intervening years (1968-1972) have been introduced, and the property in 1976 has much higher outstanding mortgage indebtedness, giving the latest owner "negative equity". Before understanding where each building ended up in 1980, the impact of the intervening years must be considered.

Table IV-2: Several Owner Fenway Building Financial History  
(10 Apartments)

	1964	1968	1972	1976
1. Gross Annual Rent	\$10,000	\$17,000	\$25,000	\$24,000
2. Operating Expenses	3,300	4,000	6,000	8,300
3. Property Taxes	2,300	2,800	6,600	8,000
4. Owner's Net Income (before financing)	4,400	10,200	12,400	7,700
5. Cap Factor	.088	.10	.11	.128
6. Imputed Market Value	50,000	102,000	113,000	60,000
7. Outstanding Mortgages	35,000	80,000	95,000	85,000
8. Owner's Equity	15,000	22,000	18,000	(25,000)
9. Gross Rent Multiplier (GRM)	5.0	6.0	4.6	2.5

Source: Boston Redevelopment Authority, Research Department.



Initially, gross annual rent (line 1) sharply increased due to the influx of student housing demand, but declined after 1972, due to rent control, a changing population, rent skip outs, and vacancies. Operating expenses (line 2), on the other hand, were slow to increase with student demand but post-Vietnam inflation and then rising heating costs forced expenses sharply up.

Property taxes (line 3) were rising with the general tax rate, but in 1973 the city assessors used rent control data to revise tax assessments in order to collect 30 percent of gross rent in taxes. Net income before financing (line 4) first soared as a result of strong demand, then plunged because lags in operating expenses coupled with weakened demand.

Market value rose and fell between 1964 and 1976 (line 6). Translating varying net income through the capitalization factor appropriate to that time and location reveals that property value first doubled and then dropped back to nearly its former level. The owner who refinanced or traded saw his \$15,000 equity earn him \$52,000 (the increase in market value on line 6) between 1964 and 1968, and a further \$11,000 between 1968 and 1972. However, from 1972 to 1976 there was a loss in value of \$53,000 (change on line 6). If \$63,000 was taken out between 1964 and 1972, \$53,000 now must be put back in. Who wants to do that?

The gross rent multiplier (line 9), that conventional rule of thumb for judging value, did not warn of impending reversals, but stayed near 5 through 1972. It was generally accepted that property values were roughly five times annual gross rent--and until recently many Boston real estate participants, including potential buyers, would assume from the financial data that the property was worth well over \$100,000. In spite of declining market value, fire insurance remained in effect at this higher value, so that in the event of loss, mortgage holders stood to be reimbursed.

#### Various Investor-Owner Types Signal Market Changes

New breeds of investors thrive in these rapidly shifting markets. If they do not actually cause the shifts, their presence at least indicates them. Table IV-3 caricatures seven discernible prototypes of owners encountered in the 1976 BRA study of multi-family investor-owned housing in all parts of Boston. Before examining their succession, a few brief words on the types are in order.

Established owners and blue collar investors (Types A and B) have traditionally and ably served tenant housing needs in stable markets. As Table IV-3 elaborates, they have a long and steady perspective, acting as trustworthy custodians for their part of the housing inventory. While they easily ride out the ebbs and flows of the market as long-term owners, they have a low tolerance for administrative complexity.

Before the advent of government assistance programs and rent controls, these two types owned and managed most of Boston's investor-owned housing. Although cause and effect are not clear enough to persuade defenders of rent controls, these owner types have now largely been replaced by an elaborate range of new types that are much more difficult to regulate.

Traders (Type C) speculate in rising markets and never intend to own or manage their properties for long. Ideally they just take options, but in fact they outbid types A and B in rising markets, taking over.

Operators (Type D) come closest to the stereotypical slumlord and signal a weak or declining housing market. While deterioration proceeds with both traders and operators, each indicates opposing market tendencies and thus one must not confuse the one with the other. The operators become or remain owners of properties no one else wants or can handle. They milk the cash flow, and cut all the corners they can. While traders speculate in anticipated value, operators manage what has indeterminate value.

Table IV-3: Various Investor Types Owning Multi-Family Housing

**Type A Established Owners/Managers (Blue-Bloods)**

- Like stable markets
- In business a long time for steady returns
- Integrity, pride in writing list of tenants
- Objective, steady earnings =  $f$  (quality, steady services)
- Careful selection of choice, qualified tenants
- Tend to have relatively low mortgages or own outright

**Type B Blue-collar Investors**

- Promote stable markets
- In business for their own (or survivors') financial security
- Unsophisticated
- Objective: equity to cover old age
- Minimize mortgages, own outright if possible
- Tend to cluster holdings near their own residence
- Always on hand to do repairs on weekends, evenings
- Easily and unwittingly overwhelmed by changes
- Ill-equipped to deal with complexity of rent control, housing court, tax abatements, etc.

**Type C Traders**

- Speculate in rising markets
- Seek leverage and rapid appreciation of equity
- Objective: reap gains from appreciation upon resale
- Increase gross rent and capitalize on it by selling at a favorable price
- Tenants incidental; there only to keep building occupied and to demonstrate rent potential to next investor
- Minimize personal exposure (put in little time or money to maintain property)
- Concentrate on cosmetics that would increase resale price
- Polarized tenant-landlord relationships likely

**Type D Operators**

- Derive profits from operations in weak market areas where no one else will supply housing—the low end of the housing spectrum
- Stereotyped as the slumlord, around since at least 1960s
- Can't be dislodged because of problem of relocating tenants
- Objective: high annual returns (attendant high risks)
- Will pay taxes only as advantageous but counting on "end game" (4-5 years before City forecloses)
- Accept and pocket whatever they can of rents obtained
- Minimize taxes and maintenance outlays
- Acquire without conventional mortgage, perhaps take over existing mortgage or obtain mortgage from seller
- Properties may be encumbered with second mortgages, liens, etc.
- Virtually no tenant selection exercised, more likely than most to take welfare referrals to avoid vacancies
- Often own "worst" housing in neighborhood, causing shutters to despise them, seek their removal
- Tenant landlord polarization
- Likely to be in or get into tax delinquency

**Type E Shareholders**

- Attracted to housing as investment opportunity
- Professionals pool money to invest, form limited partnerships
- Buy at "favorable GRM's" and hope to make money through tax advantages—shelters, artificial losses
- Have limited grasp of housing issues, and responsibilities, (other than economic), but may retain a competent management team which is a critical element in delivery of decent housing services

**Type F Rehabbers and Developers**

- Work in recycling neighborhoods and renewal areas
- Often flourished under federal subsidies and now have enormous appetite for more subsidies, and/or tax breaks
- Adept at complex problems, handling red tape
- Politically shrewd, often manipulative to the extent of shaping administration of regulatory agencies
- Make their money at front end, ownership incidental
- Shapers of new market trends
- Likely to derive special advantages from tax collection and rent control system
- Increasingly the envy or model of other entrepreneurs

**Type G Special Forces (Distressed Property Handlers)**

- Specialize in newest gimmicks, take over where others leave off
- Always one step ahead of any regulatory agency (municipal, government, IRS, etc.)
- Profits are losses and losses are very profitable
- Calibre of management team, if such exists at all, depends on owner's view of what will return greatest profit within his limited time frame

Source: Boston Redevelopment Authority, Research Department.

124

5

Shareholders (Type E) dream they can be Zeckendorfs or pursue business school fantasies, but have limited grasp of the actual complexities of housing investment. Therefore, traders who anticipate a deterioration in market climate frequently manage to sell to shareholders.

Rehabbers and Developers (Type F) have come into existence in response to the complex public housing assistance programs and are now the ones most able to make these programs deliver. As an interest group they interact closely (some say manipulate) public administrators and policymakers at the city, state and national level.

Special Forces (Type G) are so unconventional that they defy categorization, but their wide-ranging abilities impress all with whom they interact. Some were formerly traders and now handle conversions to condominiums and the like. Rehabbers may simply be a subset of this type.

In fact, as the world of real estate turns into Alice-in-Wonderland, new owner types are continuously metamorphosing and serve as the best indicators of market shifts.

Reality is seldom as pure as this typology suggests, but once the prototypes are clear and one knows what to look for, differentiating actual investors is relatively simple. Then, like meteorologists, one can track the behavior of these various investor types to identify shifts in market climate.

Established owners and blue collar investors are in business to deliver housing services, not to profit at the margin. The financial picture sketched in Table IV-1 suggests how such owners are faring in the Fenway area. They can survive as long as they do not lose the old 6 percent mortgage, but in the current uncertain and fluctuating market climate they are rarely replaced by their own type. The type of owners replacing others at turnover signals prevailing market perception. In Table IV-2, traders predominated among buyers

during the 1960s. However, by 1972, turnover brought in shareholders lured by the astounding appreciation and returns on equity that traders were able to show. By 1976 operators, distressed property handlers, and even a few rehabbers were in evidence. Traders attracted by the spectacular gains through 1964 knew enough to sell out by 1972. Often those buying at this point were first-time investors who, while astute enough on the paper benefits of ownership, understood few of the actual complexities involved in property management. The shareholders who bought after 1970 with highly leveraged and costly financing found themselves in trouble if they paid all expenses, taxes, and debt service. They either evolved into operators, rehabbers, or distressed property handlers or transferred their properties to these types.

After 1976, clear evidence of arson emerged in the Seven Streets area. Fire insurance policies written at the time of highest value now covered more than market value. In many instances, traders arranged or provided mortgages, which by law have prior claim on insurance compensation in case of fire destroying the property. Not only have the properties under study in the Fenway area in fact experienced numerous fires of suspicious origin, prompting investigations, but in October 1977 an arson ring was exposed, indicting several with dealings in the Fenway. While some fires appeared to be the result of tenant negligence, many others seemed to have been set. Aging mechanical systems and deferred maintenance also played a role. To confuse matters even more, some said tenants might also have had motives for arson, since burn-out victims get priority for public assistance and relocation. Media stories compounded the confusion, destroyed any residual market confidence in the area, and failed to illuminate any of the underlying causes.

In the last few years rehabbers have appeared, taking options on properties in the area because past public policy has given priority in allocating scarce federal assistance to such distressed urban sections. Rehabbers anti-

cipate the media influence and public clamor to revitalize the Seven Streets area and are preparing for the expected commitment of Section 8 rental assistance to redevelopers.

The Seven Streets area also offers a significant counterpoint. In some nearby properties still in long-term Type A ownership, rents remained modest, housing conditions good, and tenants satisfied. These were often cited as proof that decent owners could survive with the city's rent control and tax policies. However, research in 1976 revealed that they had stopped paying taxes several years earlier. One owner reasoned: "I don't like rent control; if I don't pay my taxes I won't need to increase rent; I will thereby avoid tenant polarization and turnover; and finally when the inevitable reckoning hits the other properties, mine will survive." Such shrewdness paid off for a while as Boston's Collector-Treasurer found it difficult to deal harshly with this successful owner to collect back taxes when the city was razing nearby arson-damaged properties (also in tax delinquency) at public expense.

Now the local market is developing an unexpected solution to this dilemma of unpaid taxes. Young, more affluent households in higher income tax brackets are now buying condominiums nearby. Buildings that have been well maintained by long-term owners seem good prospects for conversion. Properties currently renting for \$240 per month are worth less than \$6,000 per unit as apartments. However, with a little fix-up they become easily worth \$30,000 per unit as condominiums today, five times as much! When the area comes into vogue, these values could rise to \$50,000, promising an excellent return to those households able to put down \$10,000 as equity. In fact, the carrying costs for a childless two-income household earning \$40,000, after taking the mortgage interest and property tax deductions against federal income taxes, are little higher than the former rents--even before considering appreciation in the value of

their unit. This conversion process has already begun in the Seven Streets area. Table IV-4 completes the two alternatives for the hypothetical ten-unit property.

The single owner building is shown as a condominium conversion. In hindsight there was no other way to maintain the housing unless the city was prepared to forgive past taxes and abate current levies. As the property has come to house a much higher income class, everyone except the original tenants has benefited. Tax arrears were paid off, fix-up occurred, current local tax yield nearly doubled, and the lenders converted an uncertain low interest \$10,000 mortgage that was little more than an annoyance into \$240,000 in secure mortgages to resident owners at 12 percent interest. The only bitter note in this happy ending is if the conversion happened so swiftly that the prior tenants felt displaced.

The several owner building provided some windfall gains in its time, but the losses were passed on through suspicious fires to all insurance policy holders. The building of course is no longer there, so it neither shelters needy people nor blights the prospects of revitalization spurred by the young sophisticates nearby.

Fires of unexplained cause now often hit well-insured properties that are frequently declining in value and tangled in title, making arrest and prosecution difficult even when authorities have reason for suspicion. Federal fire insurance is becoming a convenient form of federally underwritten business risk insurance for creditors with a bad loan.

The likelihood of arson increases as responsibilities are diffused among proliferating roles in the system and urban property values become more indeterminate. The sense of community erodes as responsibility for the disadvantaged is abdicated to the government. Special programs focusing on detection and prosecution of arson will prove futile if urban complexity and uncertainty are not addressed at the same time.



Table IV-4: Comparative Financial Histories

ONE OWNER Fenway Building Terminates in Conversion to Condominiums					
	1964	1968	1972	1976	1980
1. Gross Annual Rent:	\$10,000			\$24,000	\$28,800
2. Operating Expenses	3,300			8,300	10,100
3. Property Taxes	2,300			8,000	10,000
4. Owner's Net Income (before financing)	4,400			7,700	8,700
5. Cap Factor	.088			.128	.15
6. Imputed Market Value	50,000			60,000	58,000
7. Outstanding Mortgages	35,000			20,000	10,000
8. Owner's Equity	15,000			40,000	48,000
9. Gross Rent Multiplier (GRM)	5.0			2.5	1.7

SEVERAL OWNER Fenway Building Terminates in Arson					
	1964	1968	1972	1976	1980
1. Gross Annual Rent:	\$10,000	\$17,000	\$75,000	\$24,000	A
2. Operating Expenses	3,300	4,000	6,000	8,300	R
3. Property Taxes	2,300	2,800	6,600	8,000	S
4. Owner's Net Income (before financing)	4,400	10,200	12,400	7,700	O
5. Cap Factor	.088	.10	.11	.128	N
6. Imputed Market Value	50,000	102,000	113,000	80,000	100,000 <sup>4</sup>
7. Outstanding Mortgages	35,000	80,000	95,000	85,000	
8. Owner's Equity	15,000	22,000	18,000	15,000	
9. Gross Rent Multiplier (GRM)	5.0	6.0	4.5	2.5	

Source: See Table 5-2.  
1. Annual outlays for the 10 condominiums, including financing.  
2. Property reassessed, based on new use.  
3. Ten separate owner mortgages.  
4. Insurance settlement after total damage by fire.

#### Public Policy Inferences

Maintaining the stock so that decent rental housing continues indefinitely is a valid housing goal, but not easy to attain through any means currently within the policymaker's grasp. Many underlying forces either encourage disinvestment and deterioration or reinvestment and speculation. Yet local policy seems directed merely at symptoms.

It is useful to review what went wrong. Problems began when the relationship between income and expenses became unpredictable. Speculation resulted when income outstripped expenses, drawing in less beneficial owners, the traders and shareholders. Subsequently, when expenses climbed faster than income, other even more pathological ownership styles appeared, including operators, distressed property handlers, and rehabbers. In such flux, even responsible interests eventually bow to economic realities and sell to interests that can profit, whether arsonists or young condominium buyers. To directly attempt to control rents or prevent condominium conversion does not address the root of the problem: uncertainty obscuring the market incentives.

Table IV-4 revealed that excess demand started the deterioration cycle in 1964 by raising income while expenses and taxes remained low, which suddenly increased the value. A more responsive public policy could have immediately either controlled the rents or taxed away the excess profits. Since the city did not do this, traders entered. The "tax brake" applied by the normal order of events between 1968 and 1972 appears about right, but when compounded between 1972 and 1976 by rising heating costs, myopic rent controls applied too late, more taxes, and a less stable tenantry, some housing is irrevocably on the way to destruction. Fragmented, incoherent responsibility for public policy lies at the root of the problem. In the Seven Streets area many properties had windfall gains taken out. Arsonists wrote the final chapter for some, while Section 8 is belatedly used in attempts to maintain the rest.

Various owner types like "slumlords" are sometimes taken as the cause of a particular market climate, when in fact they only signal market change. However, their actions are visible and frequently exacerbate the market; perhaps for this reason they are often assumed to be the cause.

The policy challenge is to identify stabilizing actions that can overcome the destabilizing activities of the various owner types. Once the underlying forces are understood, the remedies become clearer. The solution lies in obeying a deceptively simple but far-reaching housing policy principle that is usually violated in efforts to deal with symptoms: the public welfare is best served when the relationship between income and expenses in investment properties is neither obscured nor altered in seemingly capricious ways by government regulations. Any measure that increases complexity and reduces predictability must first demonstrate to all interests that benefits outweigh the potential drawbacks. All the familiar policy tools must be re-examined in this new light: rent controls and subsidies on the income side; and measures such as taxes and code enforcement on the expense side. Any of these may have unanticipated side effects about which very little is known as yet.

Past housing failures or counter-intuitive results can be explained as a result of applying the familiar tools in ways that oppose this fundamental law. In a stable market, the relationship between income and expenses seems predictable to owners, lenders and investors, rewarding those with better properties. Local checks and balances, homeostatic forces acting on the neighborhood housing system, generally seem to have maintained this stability in the past. If one regards stability as the Golden Mean, then one must recognize that housing markets now increasingly veer from disinvestment on the one side into speculation on the other. Little understood side effects of public policies contribute to this veering back and forth. Table IV-5 lays out some of the associated pathologies and their remedies.

Table IV-5: Policy Mean Lies Between Extremes

	<i>Extreme (+) Imbalance</i>	<i>Stable Balance</i>	<i>Extreme (-) Imbalance</i>
Symptoms (Causes?)	Rising market Speculation Excess demand Raving prices	G O L D E N	Declining market Disinvestment Excess supply Bad prices
Indicators	Traders Income > expenses		Operators Income < expenses
Corrective Remedies	Decrease income Raise expenses Control rents Raise taxes Enforce code	M E A N	Subsidize rent w/o stigma Abate taxes Boost neighborhood image

If housing policy interventions are to stabilize and improve the rental market for apartments, a middle course must be steered between excess supply and excess demand to curb both disinvestment and speculation. For example, in a weak market it is dysfunctional to attempt to control rents and mandate repairs while adding more subsidized housing, yet in a strong market this will curb speculation. For years it was assumed that any and all deterioration could simply be treated with more subsidies and government regulations (and that inadequate funding explained continuing blight), but now it is becoming clear that we must differentiate between disinvestment caused by insufficient demand and speculation brought about by too much demand.

Some past public interventions also violated common sense because multiple agencies easily pursue cross purposes. In the winter of 1980 rent controls in Boston in effect discouraged storm windows by allowing owners direct pass-through rent increases of fuel costs but only long term amortization of storm window costs. With tenants paying the heat, storm windows were not cost-effective investments for owners. Simultaneously, ABCD granted cash assistance to defray heating bills of some of the neediest who lived in drafty

apartments. Taken together, these interventions are worse than throwing money away because they actually interfere with owners and tenants doing what is sensible: installing storm windows.

In Boston, slackened housing demand in the mid-1970s probably did more than actual rent controls to keep rents from rising with housing expenses. Interestingly, although banks then also red-lined absentee-owned properties, owners tended to blame the city regulations as they deferred maintenance. Higher rents are needed to restore and maintain properties, but now, as the market firms up, tenants willing to pay such rents are again available. However, determining what is a fair increase will not be easy, especially where current tenants and owners mistrust each other. Tenants who feel they cannot afford increases--a very subjective matter--will seek rent freezes or subsidies like Section 8 to enable them to remain. To avoid destabilizing the market, such assistance, if offered at all, must be equitably divided among all qualified recipients, not go to a favored few.

To subsidize the rents of only a few owners may introduce destabilizing inequities from the point of view of abutting owners, or could even inflate general operating expenses. Abutters may hold back on maintenance until they too get subsidies, while the trades and services may inflate their charges on the basis of what they now expect to get from the subsidized owners. Productive policy interventions must consider and anticipate the reactions of all affected interests before intervening. Myopic policies like rent controls that appear arbitrary frequently override the natural stabilizing mechanisms, thereby jeopardizing the future viability of Boston's low and moderate income apartments.

### In Conclusion

Encouraging current long term owners to continue to serve their long term tenants was suggested at the outset of this chapter as the most important policy objective for the apartment stock. There are neither appropriate subsidies nor new owner types who can equitably serve current tenants nearly as well as most of those who have already been serving them. Making the policies governing apartment operations more open, explicit and across-the-board, instead of letting them be arrived at through case-by-case determinations, would substantially ease their lot as well as improve the behavior of many of these apartment owners. Nevertheless, the market inducements to sell or get out of apartment ownership that were absent during the 1970s have returned and promise to increase sharply in the future as soon as the 1980 credit crunch eases.

The city should also consider some special incentives to encourage long term owners to continue serving long term or elderly tenants. Among the possibilities that merit consideration are grants to long term owners upon completion of energy conserving improvements or towards the refinishing of apartments occupied by long term residents if they execute a lease. (A lien could serve to recapture the grant in the event the property is sold or the households are displaced.) A local capital gains tax on excessive real estate appreciation (over 30% per year) should be considered to discourage traders, those who speculate in housing futures as if they were commodities. Raising assessments only upon sale would be another effective technique for encouraging long term owners to continue. Perhaps a state-wide coalition can be pulled together to revise this tax policy.

Displacement, the involuntary replacement of current residents by another more advantaged class, promises to become the most pressing housing issue of

the 1980s. In preparation for dealing with it, the roles of tenants, owners and the public sector in maintaining their apartments will need careful re-examination. Residents must prepare to shoulder more of their actual housing costs if equitable public subsidies cannot be found. If public policy is ineffective in safeguarding the interests of current residents, the more advantaged will simply move in and the public clamor for action will rise as time restricts the range of options open to the city. Although much construction is underway, sufficient additional housing is unlikely to be ready by the time it is needed. As more properties are traded or converted, it will become too late to slow down and shape the turnover process so that the greatest public good can be derived. Now is not the time for innovative but simplistic new programs. Instead we must examine the rights and responsibilities with the current residents who wish to retain their apartments, as well as the impact the city's housing policies already have on the many owners of this vital one-third of Boston's housing.

The cumbersome public sector must be streamlined to enable it to adjust and respond to the new realities. Since existing housing is becoming scarce and valuable, policy makers must learn how to sensitively manage excessive demand pressures so that cash flows again become adequate to restore housing but not so rich as to provoke speculation and inflation in property values. Easing the complexity, reducing the uncertainties, and harnessing the new demand--all make conserving the multi-family stock quite possible. Dwindling federal resources only underscore the fact that in the next decade the decisive public actions must be taken at the local level.



#### V. Condominiums: The Newest Factor in Boston's Housing\*

At the end of 1979 condominiums became a major media issue in Boston, even though there were only 4,600 units, less than 2% of Boston's entire housing stock, and the actual rate of conversion was less than the rate of erosion of public housing (discussed in Chapter VII).

Approximately one-fifth of the condominiums are in previously non-residential structures, but the balance are conversions. The initial residential conversions were within walking distance of the downtown. These were generally luxury rentals, often sold as is. However, as condominiums became more widely accepted, more marginal stock has been drawn into the conversion process, and it is now no longer always a simple one for one tenure change. In lodging house conversions, for example, extensive rebuilding typically results in three former rooms having been converted into one new, higher-priced condominium.

Condominium development in Boston got off to a relatively slow start and even today the nature of condominium development here is markedly different than most other cities. The first condominium conversion took place in 1969 and activity increased slightly in 1973 and 1974. There was a lull until 1978 when 900 units came onto the market. 1979 produced another 1,600. Over half of the City's condominiums were developed in 1978 and 1979.

The volatile mortgage market in the first part of 1980 and enactment of the City's ordinance which requires a one-year notice to tenants prior to eviction for conversion, coupled with a glut of units converted during the last quarter of 1979 resulted in a leveling off of activity during the first six months of 1980.

\* Much of the information on condominiums presented here is drawn from the report by Bonnie Heudorfer, BRA, "Condominium Development in Boston, August 1980."

As prices in the Back Bay/Beacon Hill neighborhoods continue to climb, condominium purchasers are looking to nearby areas where similar units are available at two-thirds (South End) or one-half (Allston) the price. One to four unit buildings are now being marketed for sale as condominiums in Charlestown, East Boston and Jamaica Plain. Larger rental properties are being converted in Dorchester, South Boston, Roslindale and Hyde Park.

Buildings converted to condominiums in Boston tend to be smaller than buildings converted in other cities. The median number of units per condominium in Boston is six. Of rental properties converted to condominiums in downtown Boston, only seven (7%) percent contained over 25 units. Boston is also somewhat different from other cities in that a relatively small proportion of luxury rental housing has been converted to condominiums. While the earliest conversions were clearly of high quality rentals, over half the buildings converted to date were previously moderately priced rental housing.

Eighty-five (85%) percent of Boston's condominiums are occupied by the owner or his/her immediate family, and nearly three-quarters of all condo purchases have been financed through a conventional institutional lender.

Condominiums in Boston have been developed largely by individuals who have had prior experience in Boston real estate. Whether from the rehab business or from backgrounds as brokers, these individuals confined their activity to one, or possibly two, neighborhoods and concentrated on a particular type of conversion. Thus far, Boston has had little experience with outside firms which specialize in carrying out conversion of rental properties to condominiums.

The sale of Town Estates in Brighton to an outside converter is one indication that firms specializing in conversion are becoming interested in Boston. Entry into the marketplace by "outsiders" may mean that Boston could

experience large-scale as-is conversions of luxury properties, typical of other cities such as Chicago and Philadelphia.

#### The Market Context

The preceding chapter detailed how rental housing has provided responsible long-term owners only marginal returns at best in the past decade of generally slack urban housing demand, and how rent controls and tax policies prevent owners of rental housing from benefiting from the resurgence in housing demand sufficiently to restore their properties. This encourages the strong market pressures to build up towards devising alternatives. Condominiums are a natural response--a form of own-it-yourself apartment, where both buyer and converter get major tax benefits. A flood of well-educated young households rising into higher income brackets will now pay \$30,000 to \$50,000 to own a former apartment that the market still values as worth less than \$12,000 as a rental unit. Urban condominiums are rapidly coming into vogue as an integral component of 1980's lifestyles.

To date, condominium conversions have primarily impacted a small, fairly resourceful segment of the population: young, transient and upwardly mobile renters. Their response to conversions has varied widely: some buy their unit willingly, others buy under duress, and still others buy another condo unit or a house. On the other hand, some move and find a similar rental in the same area, while others move to a higher rent, to a different neighborhood, or even leave the area altogether. There are also instances of doubling up. In short, there are still quite a number of different options and so far, because the numbers have been small, the negative impact of conversions on the overall supply of low-, moderate- and middle-income housing has been small compared to other, more significant factors like inflation and abandonment eroding this stock.

Most tenants who have stayed put have been sheltered from the full impact of inflation and the strong surge in regional housing demand. In effect, many have been subsidized by their landlords, even though they may not have realized it. However, anyone who now moves discovers that the market has radically changed. The market is TIGHT and housing costs are UP. With the media focus on displacement, it is easy for renters to conclude that their diminished choices are caused by condo conversions and that they are about to become displacees when that is actually only a minor contributor to the overall housing crunch.

Nevertheless, for a limited number of tenants without the resources--physical and emotional, as well as financial--hardships are already very severe. Years of general holding back rent increases do not help them now. If these households can be equitably identified (everyone will seek to qualify), they should be given priority for Section 8 rental assistance.

Basically however, Boston needs more quality housing now. A logical response to the new housing demand is to convert as many non-residential structures as possible in the next several years into condominiums. There are now many appropriate and under-utilized manufacturing and office structures suitable for conversion. It is important to channel the flood of new households that wish to live and invest in Boston away from taking over moderate rental apartments. At the same time, rents in this stock must generally be allowed to rise to the point where this housing will be improved by the market, since enough suitable subsidies to improve it at present rents are unlikely to become available. Public policy must allow some rent increases and some conversions. Since there will be some natural attrition of moderate income rental households, the pace of conversion of the existing stock should be monitored and if necessary regulated to prevent undue hardship upon them. In general however, rents must be allowed to keep pace with inflation.

Boston should aim for 2,000 additional condominiums annually, created primarily from non-residential stock, so that by 1985 there would be some 12,000, to keep those already existing from appreciating excessively in value.

#### Condominium Trends in Boston

Altogether, at the close of 1979, there were 4,579 condominiums, and another 700 are estimated to have been completed in the first seven months of 1980. See Table V-1 and Figure V-1. Four-fifths of these resulted from the conversion of rental housing. The balance were net new additions. Included in this latter category are units gained through new construction, recycling of non-housing space (e.g., warehouses or dormitories), subdivision of single-family homes, etc. In summary, 877 new condominium units were created where no housing units previously existed, 1,780 luxury rentals were converted into an equal number of condominiums, 1,913 moderately priced rental apartments became 1,675 condo units, and 722 lodging house rooms telescoped down to 247 condo units.

The conversions which previously were rentals varied greatly in terms of tenantry, as shown in Figure V-2. Since many view the conversion process building by building, Figure V-3 presents the same data by structure, revealing that there have been many small scale, lower rent buildings and even a significant number of lodging houses involved.

Condominium development has gone through at least three phases in Boston. It all started with the filing of a master deed for conversion of a luxury 8-unit property in the Back Bay in December 1969.

- 1969-1973, The Pioneering Phase: owners converted 6-12 unit luxury rental properties in the core area, then tested the neighborhoods, and ended up over-producing.

Table V-1  
TOTAL RESIDENTIAL CONDOMINIUM DEVELOPMENT\*  
IN BOSTON, 1969 - PRESENT

Year Developed	No. of Buildings	No. of Units	
1969	1	8	
1970	2	20	
1971	7	219	Pioneering Phase
1972	13	145	965 units
1973	23	573	
1974	28	505	
1975	15	236	Consolidation Phase
1976	22	179	1,091 units
1977	21	171	
1978	60	897	The Resurgence
1979	155	1,626	2,523 units
Total as of January 1, 1980	348	4,579	
Estimated total January 1, 1980 through July 31, 1980	60	700	
Estimated Total as of August 1, 1980	408	5,279	

\* Includes new construction, adaptive reuse, conversion from 1-4 family dwellings, etc.

Figure V-1: Condominium Development in Boston by Phases

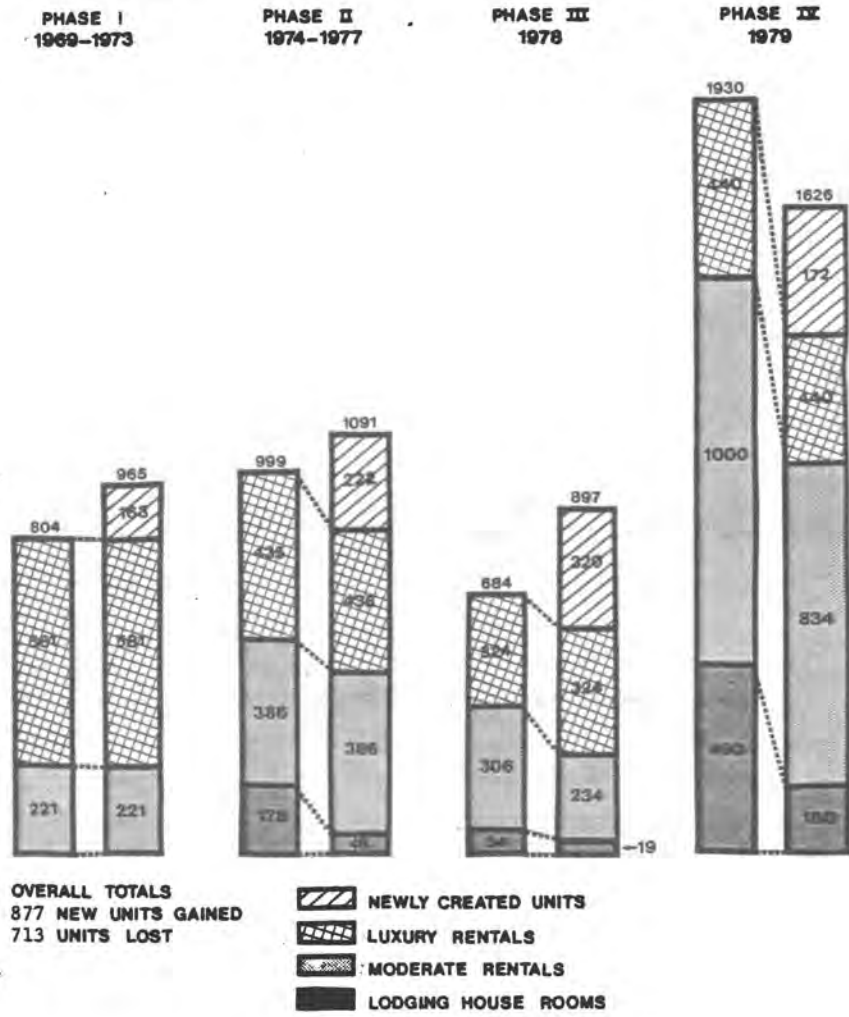
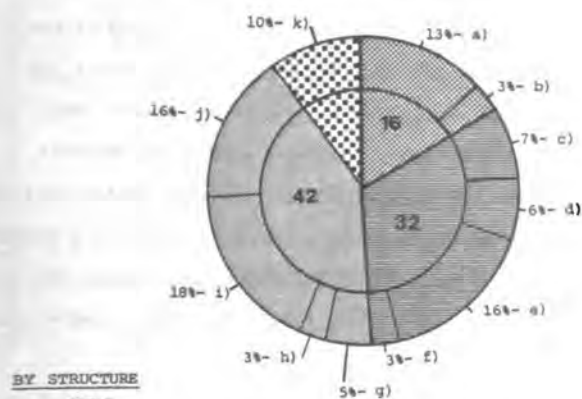
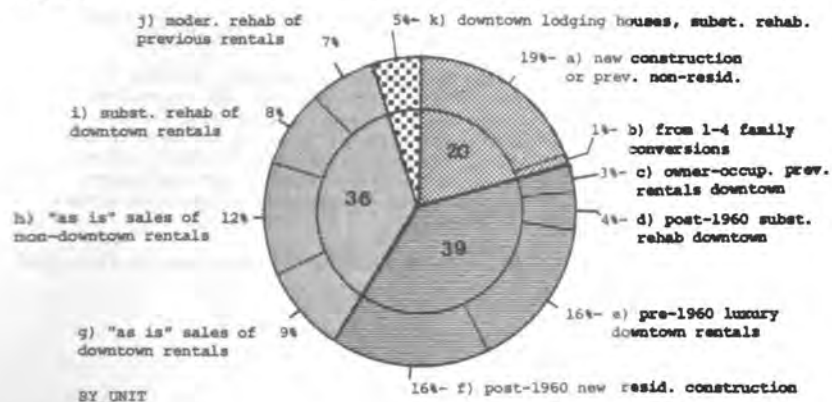


Fig. V-2 PREVIOUS USE OF STOCK DEVELOPED AS CONDOMINIUMS



## KEY

- new additions to the residential stock
- resid. stock previously at luxury rents
- resid. stock previously at moderate rents
- resid. stock previously at low rents (lodging houses)



- 1974-1977, The Consolidation Phase: initial over-production is absorbed and there is further experimentation in conversion of stock types, some new construction and expansion into new neighborhood markets.
- 1978 on, Resurgence: fueled by consumer acceptance, sharply increased housing demand, as well as fresh national tax incentives in 1979, the creation of condominiums begins to occur on a limited scale in half the neighborhoods in the city, while activity in the close-in areas surges ahead. However, significant--often subtle--changes are occurring in the behavior patterns of various actors which may radically alter the nature of Boston's condominium market.

Table V-2 shows the annual growth in the number of conversions by principal neighborhood.

#### 1969 - 1973, The Pioneering Phase

The initial activity--from 1969 to 1972--was limited to the conversion of well-established rental property virtually within walking distance of the Boston Common and Public Gardens. The majority contained more than 1,200 square feet of living space and nearly half had six or more rooms. Most properties could be classified as luxury; they were well-maintained with a fairly stable tenantry. There are substantial tax advantages to residents in owning such apartments as condominiums. Nearly eighty percent of the properties converted had been in long-term ownership at the time of conversion, and forty percent of the tenants had been living in their units for three or more years. One-third of these residents purchased their units.

In 1973, activity moved beyond Back Bay and Beacon Hill. Condominiums were developed in non-residential properties in the North End/Waterfront, while a 1960's garden apartment complex in West Roxbury and a post World War II Veterans Housing project near Forest Hills were also converted. However, neither the latter, nor a small group of renovated townhouses in the South End nor an older, moderately-priced building along the Fenway (all done at that time) proved very marketable for a while after conversion.

Table V-2: Annual Growth in Condominiums by Neighborhood

## RESIDENTIAL CONDOMINIUM SUMMARY

Year	City Total		Back Bay		Beacon Hill		North End/ Waterfront		South End		Other	
	Cases	Units	Cases	Units	Cases	Units	Cases	Units	Cases	Units	Cases	Units
1969	1	8	1	8	0	0	0	0	0	0	0	0
1970	2	20	1	13	1	7	0	0	0	0	0	0
1971	7	219	4	155	2	40	0	0	1	24	0	0
1972	13	145	8	100	4	28	0	0	0	0	1	17
1973	23	573	13	165	4	25	3	190	0	0	3	193
1974	28	505	16	380	8	65	2	47	2	13	0	0
1975	16	236	7	176	8	44	1	16	0	0	0	0
1976	22	179	16	109	3	12	1	9	0	0	2	49
1977	21	171	9	67	7	32	4	24	0	0	1	48
1978	60	897	31	220	14	120	9	304	1	5	5	248
1979	155	1,626	58	505	31	219	15	194	20	121	31	587
TOTAL:	348	4,579	164	1,898	82	592	35	784	24	163	43	1,142

505

While the number of conversions increased dramatically during 1973 and 1974, demand did not keep pace; activity slackened for the next three years while the excess units were absorbed.

#### 1974 -1977, Consolidation

The number of conversions soon dropped off sharply but the geographic expansion continued, particularly on the north slope of Beacon Hill and in the North End/Waterfront area. The type of stock being converted was changing as well. The first lodging houses were converted; more modest downtown rental properties were re-done, some sold with full rehabilitation, others in "as is" condition; the number of resident landlords (owner-occupants) converting their buildings increased; the first newly-constructed condominium units in the city were built in Jamaica Plain; and the first cases were reported (of a relatively small number) of landlord harassment and fraud in the eviction of tenants, of purchaser dissatisfaction and of bank foreclosures.

In the first two years of conversion activity, eighty percent of the converters had owned their properties more than three years. In 1972-1973 that number dropped to fifty percent, and through 1977 it dropped further to 25 percent, marking the increase in activity of the professional converter. The activity also began to involve more transient housing accommodations, yet the percent of tenants purchasing their units upon conversion during this period actually increased to 36 percent. This may reflect the growing acceptance of condominiums as well as the wider range of moderately-priced offerings. In view of their extraordinary recent appreciation, it is noteworthy that half of the units sold between 1973 and 1976 cost less than \$40,000, and 37% were under \$30,000.

Nearly twice as many condominiums were sold in these three years as were created, yet there were some difficulties in absorbing the 1,000 units which glutted the market in 1973 and 1974. The moderately-priced units in the best non-downtown locations sold well, with a remarkable number of existing tenants buying their units. However, the largest neighborhood development, the World War II project near Forest Hills, was possibly too isolated from shopping and services, since it still houses a number of rental tenants in the developer-held units today. Two North End properties, converted during this period are also still operating entirely as rentals, and the developer of the new luxury units in Jamaica Plain encountered such marketing difficulties that the project was foreclosed by the construction lender, to be freed only recently by the rising market.

#### 1978 on, Resurgence

The number of conversions as well as the number of newly-created units soared in 1978. Fifty percent more units were converted in 1978 alone than in the entire three preceding years. The range in location and type of building being converted paralleled the 1974 - 1977 period; even proportions remained roughly the same. Again, only a quarter of the converters and the tenants had owned or lived in the building for more than three years. The properties converted outside the downtown tended to be well-located and well-maintained, whether new or old, and in the most desirable submarkets: South Boston on the water; Brighton around the reservoir; West Roxbury on the Newton town line. In the Back Bay, activity was expanding towards the Fens.

Most recently, the major new shift in the downtown neighborhoods was that only 15 percent of the existing tenants purchased their units, reflecting the fact that lower-priced rentals are now being rehabilitated and sold as higher

priced condominiums. Outside the downtown, however, thirty percent of the existing residents purchased, in keeping with previous years' "as is" sales.

Currently, the pace is accelerating, exposing potentially important new trends. First, sales prices now quickly reflect consumer acceptance in neighborhoods outside the initial core area. In most neighborhoods, units in the second and third buildings converted are bringing prices of about one-third more than the first conversions a year earlier. These increases do not reflect increased rehab costs since most are "as is" sales; rather, they indicate increased demand from investors and speculators wherever a market has been established.

Second, the number of lodging house conversions in the core area jumped to 35, exposing this as a particularly vulnerable stock type. In addition, an increasing number of marginal Back Bay/Beacon Hill rental properties are currently being substantially rehabilitated for sale as condominiums.

Third, more people are getting involved in the conversion activity. As activity expands, the share undertaken by the major converters who had emerged over previous years is declining. More long-term owners have now decided to get out of the rental business while realizing a substantial capital gain through conversion. At the same time, new buyers with little prior real estate experience are attracted to conversion by the potential of a quick profit.

The most dramatic recent increase was close in, in the South End and St. Botolph neighborhoods, which had only four condominium developments (three of them conversions from rentals) on January 1, 1979, and by year's end had 30 such developments and at least 20 more in progress.

Tenant concerns and opposition to proposed conversions appear to have increased dramatically in 1979. The Boston Rent Control Administration's records indicate that tenants had begun protesting evictions or seeking assistance to deal with conversions at least as far back as three years ago; however, the media did not pick up on these trends until late in 1979. Community groups as well as developers have actively begun to investigate city and federal programs for assistance and possible use in expanding home-ownership opportunities. Some have negotiated more favorable purchase prices or "life estate" status in their existing units; some have sought either direct relocation benefits or developer or public agency assistance in relocating; and in at least one case, the fear of possible displacement prompted a group of tenants to purchase their own building.

Developing cooperatives or condominiums to benefit existing residents are among the new and promising initiatives. The Jamaicaaway Towers project has converted to a cooperative, transforming its 121A tax status accordingly to entice existing residents to buy; and Urban Edge, also in Jamaica Plain, is attempting to convert a triple-decker into condominiums for resident purchase under a Community Development Block Grant funded rehabilitation program.

At the end of 1979, the announced intention to swiftly convert 360 rental units at Town Estates in Brighton aroused widespread citizen concern. The presence of an outside middleman in the process suggested to some that Boston was on the verge of experiencing large scale as-is conversions of rentals, already notorious in cities like Chicago. The city then enacted an ordinance requiring a property owner to give existing tenants one year's notice (and handicapped and elderly two year's) of intent to convert.

In the first half of 1980, unprecedented mortgage interest rates caused condo sales to drop by a third. Also, the number of master deeds filed (signal-

ling intent to convert) dropped for a while. Nevertheless, sales prices are now crossing the \$100 per square foot threshold in Back Bay/Beacon Hill, and trends suggest that condominium conversion could easily snowball when the results of current experimentation are in. Inside word is that a number of major HUD-insured developments like Prudential, Harbor Towers, and Charles River Park are contemplating conversion. Since each of these contains between 700 and 1,400 units, the conversion of any one would match the sum of all small scale conversion activities in the peak years of 1978 and 1979. Clearly, any such conversion would usher in a new phase.

"As is" conversions typically now sell for about 10 times their prior annual gross rent, i.e., a \$250 per month former rental would sell as is for \$30,000. If there have been substantial improvements and the surrounding market is strong, the ratio can become as high as 15 times previous annual rent. Figure V-4 reveals shifts in value over time through the sales prices in 1973, 1976, and the first half of 1979. Whereas as recently as 1976 only 3 percent of all sales exceeded \$90,000, fully 15 percent exceeded \$90,000 in early 1979.

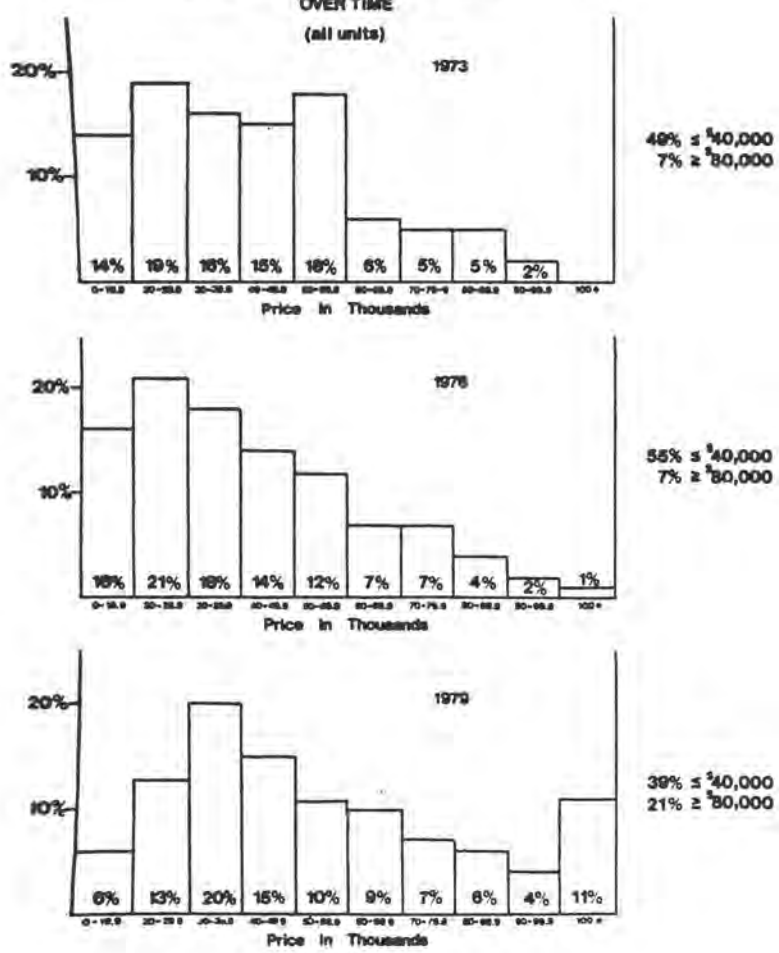
#### The Coming Challenge

Based on what has actually happened so far in Boston, there is little justification for concern about condominiums. The nationally cited extremes and abuses have so far not widely occurred in Boston.

- e Buildings are smaller; median developments involve only six units.
- a Over 5 out of 6 (85%) of the condominiums are resident owner occupied. As yet, they are not generally held by absentees as investments, although some owners have moved up but retained ownership of their previous condo, renting it out.

Fig. V-4

## HISTOGRAM SHOWING PRICE TRENDS

OVER TIME  
(all units)



- Management responsibilities are often handled among the condo owners themselves.
- Most have been small scale entrepreneurs, doing more extensive rehab, often on their own properties that they formerly maintained as apartments--whereas nationally, larger scale outsiders have come to handle as-is conversions of higher priced and luxury apartments, and then maintained an interest through management firms.

However, the future will not simply be more of the past. Not only has the generally housing supply in the eastern Massachusetts region not kept pace with demand, but the effects are most pronounced in urban condominiums. Their comparative scarcity has resulted in extraordinary appreciation in the face of inflation--not unlike Krugerrands. Indeed, in 1979 investment purchases of condominiums to be rented out to others increased significantly.

Some media commentators attempted a simplistic formulation in late 1979, suggesting that each new condominium represented one displaced low-income family, as if apartments belonging to the poor were being directly converted for sale to young professionals. In fact, the impact of the conversion process upon the poor was much less direct and only one relatively minor component of their increasing hardships. However, since the supply of apartments was relatively fixed, articulate residents sensed they were becoming a "captive market" for buying the conversions if they wished to remain, and the increasing rise in purchase price struck them as unfair.

The conversion of a few lodging houses in 1979 (that no one until then had known what to do with in spite of several studies) as well as some sleazy conversions did not help citizens keep a balanced perspective on condominiums. Any conversion now, through chains-of-moves, indirectly tightens an already extremely tight low- and moderate-income housing market. At the same time, with insufficient affordable housing being added in the region, national aspirations of decent, affordable housing have not been matched by progress towards solutions. Inflation is simply making more and more people eligible to compete for the dwindling assistance programs.

In the 1960's and early 1970's as families and middle-class households moved to the suburbs, a disproportionate number of elderly, disadvantaged, minorities and students remained as Boston residents. Now the tide is turning. If the city curtails further conversions, this would shut out attracting some more middle-class resident buyers that are important to the city's future. At the same time, the speculative value of the 4,500 condominiums already existing could soar out of proportion, forcing the city to forgo re-establishing a more balanced population. On the other hand, if conversions are allowed to proceed without constraint, they will be attacked by critics harping on the failure of public sector to meet the needs of the disadvantaged. Condo policy is becoming impaled on the horns of a little recognized dilemma, and one that has been some time in the making. Tenant responsibilities to meet their expenses and the government's capacity to subsidize are also factors that play a role.

During the past decade of slack housing demand an unfortunate relationship between operators and the most distressed tenants developed. Marginal apartments were bought by so-called slumlords and rented out to the poor while city taxes went unpaid and maintenance was "deferred". As deterioration proceeded towards uninhabitability, these operators, caricaturing housing filtration, bought other such properties and simply relocated their tenants into them, leaving housing shells behind for the city to demolish with COBG revenues. Now, as housing demand has firmed, this wasteful and counter-productive arrangement for housing the most distressed can no longer continue so easily; alternatives are firming up for the marginal housing.

The policy challenge lies in deciding how to best match the components of demand with the available supply. With rent controls and a surplus of "throw-away" housing in the past decades, we deceived nearly everyone, including ourselves, that we were near a solution if we could only build enough subsi-

dized housing. This has turned out to be a costly deception. Now we are challenged to take stock, figure out what is actually available, and determine the fairest way of apportioning it. Since in-migration has slackened and some households continue to pass on, both through out-migration and death, conversions at a modest rate are not only possible but are in the overall public interest. However, because an excessively strong market also permits bad practices to develop, we will have to devise more effective measures to prevent both sleazy conversions as well as speculation.

However, before we can outline the required new policy directions, we must explore two intertwined issues raised by condominiums: their appeal to new residents and their impact on the existing community.

#### Forces Shaping the Condominium Market and the Consumer Response

Quite a few of the forces involved are simply part of the times. There are many financial incentives operating nationally that make conversion increasingly attractive both to buyers and to sellers. APA's Planning Advisory Service Report #843, Condominium Conversion Regulations: Protecting Tenants, aptly summarizes many of the forces coming together now:

One of the prime reasons developers buy buildings to convert into condominiums is the large potential profit to be made in a relatively short time. Landlords eager to sell to developers, claim that rental apartments are no longer good investments--real estate taxes, utility costs, and other expenses have skyrocketed in recent years and rent increases have not kept up with these costs. Rent controls, in some areas, and increased demand for real estate add to the motivation for apartment owners to sell their buildings for conversion to condominiums. Conversions have been made even more attractive because of recent changes in federal income tax law. On January 1, 1979, capital gains taxes on real estate investments dropped from 49 percent to 28 percent. With reduced capital gains taxes, increasing numbers of landlords can be expected to be willing to sell to a condominium developer.

For condominium buyers there are also financial benefits--mortgage interest and property taxes may be deducted from federal income taxes. Furthermore, homeownership offers the hope of a secure investment in inflationary times. The high cost of single-family, detached housing makes the relatively low price of a condominium in an older building very attractive.

Additional factors are at work in some communities to increase the move to condominium conversions. Where there are obstacles to new development--such as shortage of vacant land, sewer moratoriums, or local growth control policies--the demand for homeownership will turn to existing buildings. A crucial factor, however, is a tight rental market. If there are few vacant apartments in a rental market, some renters must buy their units for lack of alternative housing. They are, in a sense, a captive market.

The concern about displacement, the need to move to another unit, signals that the residents are still not entirely captive. The basic issue underlying condo conversions is freedom of choice. One would think it a simple choice of whether to buy or to remain a tenant, paying what is required to keep pace with inflation and to hold one's place in the face of increased housing demand--but rent controls coupled with the impending housing shortage have confused the choices confronting both residents and condominium buyers. Many residents have developed quite unrealistic views of their actual housing choices and too many expect government to be able to preserve the low and moderate rental stock and at the same time maintain rents at affordable levels.

The changing realities facing apartment residents are best illustrated through some numerical examples. These show that (1) for those with the downpayment, condominium ownership promises to pay for itself in the long run, (2) strong income tax incentives encouraging resident ownership become virtually irresistible for those in higher tax brackets, especially if they seek a hedge against inflation, and (3) recent histories of apartment values and rents have obscured these changes. While rents no longer cover housing costs, they have not risen because those who could afford the necessary rents prefer to own.

Most of these more affluent households can simply get much greater housing benefits in spending their pre-tax income on ownership than by spending their post-tax income in rent.

The Greater Boston Real Estate Board recently commissioned a report titled "Condominium Conversion in Massachusetts: an Evaluation of its Costs and Benefits." The following paragraphs summarize the economic analysis presented in that study.

The main benefits of owning rather than renting an apartment lie in the favorable federal income tax treatment of home ownership expenses and value appreciation. Not only are mortgage interest and property tax expenses deductible from household income before it is taxed, but ownership functions like a compulsory savings program whose gains can be deferred, partially exempted or taxed at rates below ordinary income.

The economic costs of owning a condominium include property taxes, interest on any mortgage loan, the lost interest on capital tied up in the downpayment, utilities, and the fees paid the condominium trust. Table V-3 summarizes the economic costs and benefits of owning a \$30,000 and a \$100,000 condominium, using rules of thumb derived from the current market, and concludes that they cost \$186 and \$301 per month, respectively--significantly below what they would cost to rent. Each case has included neither the 20 percent downpayment (\$6,000 and \$20,000, respectively) nor the mortgage payments applied to principle, because these represent investments that the owner ultimately gets back. Since the owner of the \$100,000 condominium is presumably in a higher tax bracket (42% instead of 25%), his net ownership costs are proportionately lower.

If the rate of annual appreciation of these condominiums were 15 percent--as seems more likely in today's market than the 10 percent assumed in the examples--then the net long-term capital benefits offset the total capital

Table V-3: ECONOMIC COSTS AND BENEFITS OF OWNERSHIP OF A \$30,000 AND A \$100,000 CONDOMINIUM  
(On an annual basis except where noted)

	\$30K	\$100K		\$30K	\$100K
Property Taxes (5%)	\$1,500	\$5,000	Tax Reductions		
Interest on 80% Mortgage			Total Deductions	\$4,971	\$16,570
Annual Payments (12%, 25 yr.)	\$3,033	\$10,110	Tax Bracket	25%	42%
Applied to Principal	162	540	Net Tax Savings	\$1,243	\$6,959
Interest	2,871	9,570	Annual 10% Appreciation	3,000	10,000
Foregone Interest on 20% Downpayment			- Cap gains tax reserve	- 450	-1,500
10% Interest	600	2,000	Net Appreciation	2,550	8,500
Total Capital Costs	4,971	16,570			
Condo Fees and Utilities	1,050	2,500			
TOTAL ANNUAL COSTS	6,021/yr.	19,070/yr.	TOTAL CAPITAL BENEFITS	3,793/yr.	15,459/yr.
(Total Monthly Costs)	502/mo.	1,589/mo.			

	\$30K	\$100K
Total Capital Costs	\$4,971/yr.	\$16,570/yr.
Total Capital Benefits	3,793	15,459
Net Ownership Costs	1,178/yr.	( 889/yr.) GAIN
+ Condo Fees and Utilities	1,050	2,500
Net Costs (includ. fees & util.)	2,228/yr.	3,611/yr.
	\$186/mo.	\$301/mo.

costs of the \$30,000 condominium, leaving the owner only the fees and utilities as costs. When the \$100,000 property appreciates at 15 percent, the net capital gains even cover the condominium fees and utility costs as well. The greater the rate of inflation in relation to the mortgage interest rate, and the higher the tax bracket of the owner, the more does such a condominium investment reward its owner--virtually to the point of living expense free if he chooses shrewdly!

These economic advantages are open to all who pay income taxes and who can provide a downpayment. However, rent controls have obscured these benefits of homeownership.

In a stable, unregulated market a quality apartment unit renting for \$250 per month might have a value of \$16,000 (the annual gross rent multiplier in a stable market is normally around 5 or 6). As a condominium it might sell for \$30,000--and that was the condominium situation in Boston in the early 1970's. For nearly a decade now, rents have been held back, depressing the incomes and thereby the values of these properties as apartment buildings. So the resident who has been able to rent the quality apartment for \$250 monthly will feel it cannot conceivably be worth the \$30,000 asking price. Rent controls and the federal tax effects have in fact depressed its value as an apartment investment to only \$9,000 (the annual gross rent multiplier in an uncertain or declining market is roughly 3, as explained in Chapter IV), inducing the owner to try to convert it to a condominium. While the tenant rationalizes that this is an absurd time to take on a mortgage anyway and elects to become a displacee, the converter easily obtains his price from another.

Paradoxically, if a ban on future condo conversions is enacted to protect such tenants, the market value for already existing "comparable" condominiums tends to rise only more rapidly, towards \$50,000 in two years (a 30% increase

per year on value, and much more on equity), conferring a windfall gain to the buyer who took the plunge. This only polarizes the differences between tenants and condo buyers further.

#### Community Effects of Condominiums and Conversions

The neighborhood merits and drawbacks of condominium tenure must be considered independently before plunging into the pros and cons of converting existing apartments into condominiums.

Recapping the economics from the individual's standpoint, federal tax laws substantially favor homeownership. The homeowner can not only use his before tax income to pay his property taxes and mortgage interest (if he itemizes his deductions), but his property is likely to appreciate at a rate exceeding general inflation and probably even the interest rate on his mortgage. On top of that, the resulting capital gains are also taxed more favorably than ordinary income. Although the homeowner must furnish some equity, tying up capital in a downpayment, and he cannot move so easily from dwelling to dwelling at will, the homeowner's dollar buys much more housing than the renter's dollar, the difference being determined mainly by the owner's tax bracket and the actual appreciation in the value of his unit. These benefits are a kind of indirect federal revenue sharing with individual homeowners.

From the neighborhood's standpoint, resident ownership promotes neighborhood stability and boosts property values because homeowners have more of a stake in their community than tenants. Directly creating new condominiums through new construction and adaptive re-use of previously non-residential space not only adds to the housing stock but improves the community as well.

However, converting residential apartments into condominiums raises more complex issues. While conversions do not increase the stock, they do not



usually reduce it either. Rather, conversions transpose its use to residents who can make the financial commitment--generally but by no means always a relatively higher income class.

From the City's perspective, conversions present a mixed blessing. Not only does the City receive 30 to 50 percent more in tax revenues from the residential properties after conversion, but the average conversion also involves improvements which translate into nearly one man-year of employment per unit upgraded. Some of the intractable problems associated with rental housing (like making it more affordable while improving it) are also side-stepped. However, conversions clearly reduce the available low- and moderate-income rental housing stock.

For the longer term residents who have tried to maintain their apartments in the face of years of so-called urban distress now to be "displaced" by impersonal rising market forces seems an unwarranted new indignity. Although these residents may hope that rental subsidies or bans on condominium conversions can preserve their rights to remain as tenants, this is not likely to work for the majority, both because available subsidies are inadequate and because rent controls will probably be ineffective in the face of the regional housing shortage.

#### Policy Measures to Mitigate the Impact of Condominiums

As long as demand greatly exceeds supply--at least for the next six years--adding a ban on condominium conversions will not solve the basic problem of lack of enough desirable and affordable housing. In fact a ban more stringent than the present one year freeze on evictions for conversion would prove counter-productive. Nevertheless, there are a number of less direct policies which taken together are necessary to mitigate the impending housing shortage.

- Encourage development of new condominiums from non-residential space as well as from housing that has been unoccupied for the last two years due to abandonment, tax delinquency, etc. Tax agreements and facilitated processing of city permits can expedite desired developments.
- Encourage accessory apartments within the resident-owned 1-4 family stock to increase the diversity as well as expand the number of units in the housing stock. Since such ancillary apartments enable homeowners nearing retirement to remain and preserve their homes, this could be a new source of moderate income rental housing. Only some creative zoning changes are needed to enable these additional dwellings to be created within existing structures.
- Encourage long-term owners and tenants that get along to stay put by not reassessing their structures. Properties that have remained in the same hands five or more years have much lower debt service, making this relationship important to preserve during the impending period of housing shortages and soaring costs. Priority in grants and assistance for weatherization to reduce heating costs would further preserve this moderate rental housing. Since the owners may be tempted to sell to condominium converters, incentives need to be devised to induce the present owners to continue providing decent rental housing. Suitable carrots will be more effective than any more sticks of regulation.
- Encourage a more reasoned acceptance of the concept of condominium ownership--not on a blanket basis but as beneficial to the appropriate households, place, and time. Media coverage in Boston has instilled a virtual caricature of condominiums as a lucrative tax dodge for only the rich. This can be tempered by disseminating local resident experiences such as Urban Edge in Jamaica Plain and Homeowners Rehab in Cambridge. Active consideration of an anti-speculation tax, which would recapture a portion of the gains in excess of the Consumer Price Index, might cool some of the emotional debate which has been triggered by the appreciation in value of existing condominiums in Boston. Ultimately however, that is again a reflection of too much demand for an inadequate supply, exacerbated by national income tax incentives that the City can do little to alter.

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Guide for the Preparation of Manuscripts

1. Any manuscript that represents a significant contribution to knowledge about planning or urbanism is welcome. Ordinarily, submission is unsolicited. In no instance does an author receive payment.

2. Papers should not normally exceed twenty double-spaced pages, typed. Papers greatly exceeding this guideline may be returned to their authors unreviewed, pending a submission of more reasonable length.

3. Submit four copies of the manuscript, keeping a copy for your own files. All copies must be clearly legible.

4. Each manuscript must be accompanied by a 100 word *Abstract*, to appear at the beginning of the article, and a brief *Biographical Sketch* of about 50 words.

5. Place title, author's name, and biographical sketch on a cover page. The title of the article (but not the author's name) should appear again on the first text page as a means of identification. Submitted manuscripts are circulated for review without the author's name or institutional identification.

6. All copy must be double-spaced, including quoted matter, references, notes, captions, and tables. Leave generous margins on all four sides of the 8½ x 11 page.

7. Submit a self-addressed envelope, in appropriate size and with adequate postage, if you wish your manuscript returned after review and processing. Enclose a self-addressed postal card, containing manuscript title, to receive acknowledgements of manuscript receipt.

8. References should be cited in the text by giving the author's name and the year of publication. For example:  
  
The suggestion has frequently been made that vegetation, particularly trees, may be capable of reducing community noise (Noyes 1969). Harris simply defines noise as "unwanted sound" (1957, p. 18).  
  
References should be alphabetized by authors' last names and typed, double-spaced, beginning on a separate sheet at the end of the manuscript. The following examples indicate style for book and article citations.  
  
Trewartha, G. T. 1954. *An introduction to climate*. New York: McGraw-Hill.  
Downs, A. 1970. Alternative forms of future urban growth in the United States. *Journal of the American Institute of Planners* 36, January: 3-11.
- For further guidelines, see *A Manual of Style* (University of Chicago Press), pp. 372-75 and 564-88.

9. When necessary for clarification, explanatory notes (not footnotes) may be used. They should be consecutively numbered and typed, double-spaced, beginning on a separate sheet at the end of the manuscript, preceding references. For further guidance, see *A Manual of Style* (University of Chicago Press), pp. 557-570.

10. Tables and illustrations should be titled and numbered with Arabic numbers, and each should be placed on a separate sheet. Indicate appropriate locations in margins of the text, e.g., "Table 1 about here."

11. Authors are encouraged to illustrate their manuscripts with charts, tables, maps, drawings, and photographs. Retain original illustrations until requested but submit page-size copies, which may be in draft form, for circulation to editorial readers.  
  
Illustrations submitted to the *Journal* from previously published works are welcome; but it is the author's responsibility to obtain written permission from the original publisher.  
  
When the artwork is being developed especially for the *Journal*, it should be designed for possible reduction. Line drawings should be prepared so that detail and lettering will remain legible when reduced. Art type or press-on lettering in bold, simple style and India ink are suggested. Photographs (half-tones) should be submitted as glossy prints, with a caption attached.

12. The *Journal* is guided as to style, spelling, and usage by *A Manual of Style* (University of Chicago Press) and *The American Heritage Dictionary* (Houghton Mifflin).

13. Contributors can usually be notified within twelve weeks about acceptance for publication. If it is necessary to return manuscripts for changes, authors are furnished with specific recommendations by the reviewers and the editor. Responsibility for final decisions on editorial revisions remains with the editor.

14. Submission of a manuscript implies commitment to publish in this journal. The rigors of the selection process require a great deal of voluntary time and effort on the part of editorial readers. For these reasons, this journal regards the simultaneous submission of a manuscript to other professional journals as an unacceptable practice.

# The Dynamics of Neighborhoods

A Fresh Approach to Understanding Housing and Neighborhood Change

Rolf Goetze and Kent W. Colton

In 1978 President Carter announced a national urban policy (President's Urban and Regional Policy Group). The policy focused on a number of goals, such as preserving the heritage of our older cities, maintaining urban investment, and assisting new cities in "confronting the challenges of growth." A large number of those suggested policies will be administered or monitored by the federal Department of Housing and Urban Development (HUD). Most of our past government housing programs have focused on increasing the supply of housing and rebuilding downtown facilities, but they have failed in many areas to reverse the decline of cities. In fact,

a number of government programs have proven counter-productive in their influence. The future could be different as changing market forces and population demographics for the next fifteen years offer a unique opportunity for neighborhoods, cities, and financial institutions to develop a partnership to stimulate revitalization. However, new problems will emerge, and a national urban policy can succeed only if public and private sectors can work together and if policies can be sensitive to the market dynamics of cities. This paper outlines a fresh approach to designing housing strategies, based on an understanding of these market dynamics.

There is widespread confusion concerning the causes of neighborhood decline. Consider the desire to pin the tail on the donkey:

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Who caused this neighborhood to decline? Why are there broken streets, vacant houses, boarded-up stores where there was once a solid, thriving community. A middle-aged woman cannot bear the thought of a second visit to her old neighborhood—"not after what they've done to it."

Who are they? Well, it's obvious, isn't it? The streets are full of black faces. Black people just don't care. They've let the neighborhood go to hell. The blacks did it.

But according to a militant young staffer in a state regulatory agency, the banks did it. They've red-lined the area. By strangling the flow of mortgage money, they've made it impossible for a healthy replacement process to continue. They suck up urban deposits and deposit capital in more profitable, lower risk suburban developments. Quite clearly, the banks did it.

Not according to the bank president. If anyone deserves the blame, it is the city. It is the city, not the banks, who are responsible for dirty streets, inequi-

table assessments, venal building inspectors, indifferent police.

The city now suggests the Department of Housing and Urban Development is responsible. HUD did it with its ill-conceived, mismanaged FHA low down payment home ownership program—not to mention its financially distressed 211(d) (3) and 236 subsidized developments, or its public housing disasters.

In this confusion various interests argue from differing premises for conflicting solutions. It's an income problem. No, it's a race problem. No the problem is lack of financial support from the banks . . . city complacency . . . corruption . . .

This article will show that rather than relying on any one causal force, such as those noted above, the dynamics of cities evolve around a combination of influences.<sup>1</sup> The future of our cities in this country is not impossible. In fact, the demographic trends over the next decade provide a unique opportunity for city revitalization—although they also bring new challenges (Alonso 1977). However, the emphasis in formulating policy must be on understanding the dynamics of the urban market place and neighborhood change, and strategies must be tailored according to these neighborhood dynamics.

In order to highlight possible opportunities for the future, the next section of this article will review some of the influences which may contribute to a new life for the city, with a special emphasis on the underlying demographic trends. Following that, two sections will discuss the importance of understanding neighborhood market dynamics. Using Boston as an illustration, a classification scheme will be developed to explain the patterns of change which exist and to show how housing strategies must be tailored according to these dynamics. The concluding section will offer a recommended approach to achieve the "golden mean" of neighborhood stability.

#### A new life for the city?

Until quite recently it was fashionable to debate whether cities were worth saving. Housing experts seemed to be on an endless quest to cure blight, and the focus was on efforts to arrest decline and to restore the tax base for struggling urban areas. Although problems of blight still persist in many neighborhoods, a countermovement is also building. Suddenly urban neighborhoods are being rediscovered, urban chic is becoming "in," and the cultural excitement and vitality of cities is receiving increasing attention (Allman 1978; Pierce 1977; Black 1975; Lipton 1977). Experts now seek a cure for "displacement," a new term describing existing residents being priced out of their own neighborhoods. Magazine articles feature the "Middle Class Poor," and declare "Housing

Outsight," while Sunday magazine supplements dwell on "brownstoning," the restoration of 19th century city residences that fell into neglect (Anderson 1977; Peirce 1977; Reinhold 1977).

A growing variety of influences have contributed to this renewed attention to urban neighborhoods. First, the 1973 oil shortages and embargo challenged people's beliefs that energy would always remain cheap and that commuting times would always improve. And shortages in 1979 have confirmed these concerns. Suddenly urban density, public transit, and even the availability of buses and taxicabs demonstrated their advantages. Not only is living in the city fun and culturally exciting for some, it may also have economic advantages.

Second, the bicentennial fostered a reappraisal of our American heritage. Many now place a greater value on older things. And experience has taught us that newness sometimes means shoddiness, advertisers' claims notwithstanding (Fichter 1977).

Third, and unobserved by many, an unprecedented flood of new households is forming from the babies born after World War II. These individuals crowded the suburban classrooms in the Kennedy years and then clamored to get into (and change) the universities in the Johnson years. Large numbers of these young now seek to own houses of their own. Some of these households with a penchant or lifestyle that thrives on urbanizing are returning to the city. What percent will actually choose to buy in the city as compared to the suburbs is still undetermined, but undoubtedly demand for the existing stock will sharply increase.

Finally, housing is no longer viewed solely as shelter; rather it is a form of investment, a way to keep pace or ahead of inflation. With more women working—either to keep up with inflation or to seek a new life style—young couples are less concerned with quality of inner city schools and two-wage households can afford to spend more on housing (Alonso 1977). By out-bidding the single-earner family, though, they may also add to the growing inflation in property values.

It will not be known for a number of years whether these forces actually portend a permanent and significant return to city living or whether it is a transitory phenomenon hyped by the media.<sup>2</sup> However, some type of change is occurring and we can no longer look back. We must focus at least part of our attention on housing and urban neighborhoods and the interaction which is underway. One of the biggest determinants of this interaction is the post World War II baby boom noted above.

#### The challenges and opportunities of the baby boom

Most know of the baby bulge—the large number of children born between 1940 and 1965. While we have heard of overcrowded classrooms (now empty), the

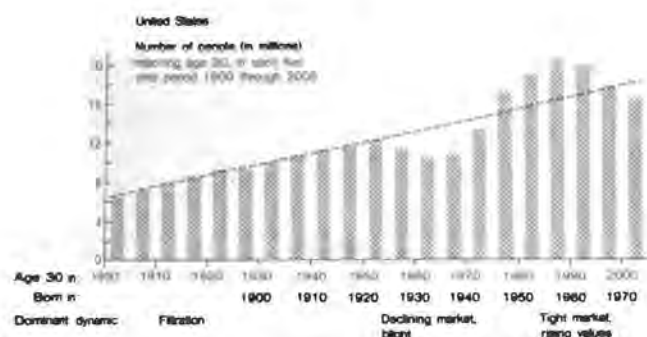


Figure 1.

crush on colleges (with overbuilt dormitories), and the current intractable unemployment problems, we seldom connect these events. At each turn, accommodating this bulge has strained the system, and housing is no exception.

Figure 1 shows this national bulge of people turning thirty, the time of settling down. Until 1955 there was a steady progression as the system accommodated a regularly increasing number of people. Then, between 1955 and 1975, there was a relative shortfall. In this period, the nation was short an average 14 percent of the normal number of people turning thirty. But even more drama is in store for the period from 1975 to the year 2000, because during this period 16 percent more than normal will seek to settle. The stresses this will cause are hard to visualize in advance. Those who have spent the last twenty years fighting blight will be unprepared.

Decline is difficult to adjust to in our growth-oriented society, but between 1950 and 1965, the system was forced to adjust to a reduced rate in the number of people entering the housing market. Just about the time the system became reconciled with this slack period as a normal state, the baby bulge intruded, with staggering numbers trying to form independent households and become wage earners. From the late 1960s on through the mid-1990s, increases will be stunning.

Tidal wave accounts describe how the wave first pulls the waters back exposing the hidden ocean floor, before rushing in swamping everything in sight. In the decade of the sixties and the early seventies, we puzzled, exploring the mysterious ocean floor and arguing about questions of neighborhood blight, lack of mortgage credit, and dwindling city revenues. When the tidal wave of new households engulfs urban areas in the late seventies and eighties, most of the existing housing supply will be brought into play because the nation simply cannot produce enough

new housing in the next fifteen or twenty years to meet the new demand.

For policy makers, the implications should be clear. The last twenty years can be characterized as the period when problems of urban blight caused special stress; and the coming twenty years may become the period of reinvestment, displacement, and speculation.<sup>3</sup> Lest we confuse this shift with the biblical image of the lean years followed by years of plenty, we must realize that increased demand brings benefits but also a measure of trauma, particularly for existing residents. Since all neighborhoods in urban areas are not influenced concurrently, policy makers will have to learn to separate healthy from pathological neighborhood evolution. Blight and deterioration will continue to be a problem, only less frequently. The new challenge will be to promote neighborhood stability and revitalization without displacement.

#### Neighborhood market dynamics: Boston as an illustration

Housing condition alone is not a sufficient criteria for understanding neighborhood dynamics or for allocating housing and community development resources. In the analysis described here, it is assumed that, left to themselves, different neighborhoods naturally evolve in different ways. A neighborhood classification scheme will be introduced—using data from the city of Boston for illustrative purposes—which corresponds to these different patterns of change. In turn this classification scheme will be used in recommending policy choices. Only when the natural evolution of neighborhood housing markets is understood can the impact of various public sector housing program interventions be reliably projected.<sup>4</sup>

The key dimensions for the classification scheme are housing condition and market perception. Housing condition data are essential for the analysis of various

public interventions in different neighborhoods, serving both to indicate the need for such programs, and to set limits on the potential cost of a given program. However, although necessary, housing condition data are not sufficient for the purpose of determining housing policies appropriate to different neighborhoods. A host of other factors come into play in determining the future of a neighborhood, and in this paper we have characterized this interaction of factors as market perception. (For an interesting discussion of citizen perception of their neighborhoods, see Ahlbrandt 1977.) These two dimensions—housing condition and market perception—provide the basis for the neighborhood classification framework described below.

Based on an analysis of the city's housing condition, housing units in the neighborhoods in Boston were somewhat loosely classed into three categories: *good* condition requiring at most minor repairs such as exterior painting (no more than \$1000 per unit); *fair* condition requiring moderate repairs to deal with deferred maintenance (\$1000–\$3000 per unit); and *poor* condition requiring major rehabilitation (\$3000–\$10,000) or demolition.<sup>4</sup>

Regarding market perception, the strength of the housing market in a neighborhood can be defined in terms of the relative number of households desiring to move into, stay in, or leave that neighborhood.<sup>5</sup> Three types of markets were identified. In the first—a strong, *rising* market—there are more applicants than vacancies, or more households who wish to live in the neighborhood than there are available dwelling units. In the second, a *stable* neighborhood, supply and demand balance out. And in the third, a *weak* market area, there are fewer households seeking to remain than available dwellings.

It is important to realize that variations in housing market strength do not necessarily parallel housing condition. For example, comparison of housing condition and market strength in Boston revealed that areas in similar condition were subject to different market influences. There were neighborhoods—for example, the South End of Boston—which were in poor condition but where the market was strong. And in turn, some neighborhoods were in fair to good condition but the markets were weak and owners of sound houses were disinvesting because of fear that a lack of qualified buyers might result in possible neighborhood change.

A matrix results from combining the housing condition dimension with the market perception dimension, as shown in Figure 2. Some of the characteristics associated with different types of neighborhoods are also identified. The *cost* of maintaining and upgrading is a function of condition, but the *incentive* to do so depends in many cases on the strength of housing demand and the change in market value

resulting from upgrading. Markets perceived by key actors as rising or declining differ sharply in their behavior, and the futures, even of superficially similar neighborhoods with essentially the same housing condition, will differ widely.<sup>7</sup>

As an illustration, Figure 2 also shows the estimated percentage of Boston units which fell into each of the various neighborhood types. Only about half of Boston's stock was located in neighborhoods where housing supply and demand were in a state of balance, whereas one-third of the stock was affected by strong demand, that is, by forces where the number of prospective buyers and tenants exceed the opportunities coming on the market. On the other hand, one-sixth of the housing stock was estimated to be in areas experiencing disinvestment, reflecting a weak and ineffective housing demand.

The significance of the classification scheme outlined above lies primarily in the fact that neighborhoods belonging to various cells in the matrix framework tend to be quite different, and will accordingly respond in a different manner to the same housing policy intervention. That it is essential to be sensitive to these differences in market forces and neighborhood dynamics in designing housing strategies will be discussed next.

#### Policy recommendations: housing strategies tailored to neighborhood dynamics

As yet there has been little research on how neighborhood well-being can be monitored and confidence built.<sup>8</sup> Without this sensitivity, policy makers who seek to revitalize neighborhoods are confused by conflicting objectives, and as a consequence it is difficult for clear policy recommendations to emerge. The national housing policy debate revolves around which is more important: maximizing housing choice, fixing up houses, restoring the tax base, promoting integration, housing the disadvantaged, or bringing the middle class back to urban living. Failure to rank these objectives in some order or priority as well as to identify explicitly the optimal strategies for each objective, underlies the continuing housing policy debate. Explicit discussion of these objectives and their inherent conflicts is vital before the national policy dilemma can be resolved.

To help such issues fall into place this article asserts that the primary role of public policy is to build neighborhood stability (or if one prefers, to bring neighborhoods to the "stable" column of the conceptual framework presented in Figure 2.) Further, strategies must be tailored to neighborhood housing market dynamics.

Based on an understanding of neighborhood dynamics it is possible to outline a series of strategies



		Market perception				
		Rising (R)	Stable (S)	Declining (D)	Rapidly declining (RD)	
Housing condition	Good (G) minor repairs required	G/R —rising values —rising rents 15% 33,400 dwelling units (du)	G/S —ideal neighborhood 17% 39,700 du			32% 73,100 du
	Fair (F) moderate repairs required	F/R —reverse filtration —absentees taking over —existing tenants being displaced —speculation 21% 48,300 du	F/S —graying —low turnover 23% 56,400 du	F/D —blockbusting —unrealistic expectations —arterial or industrial blight —racial fears 8% 12,800 du		50% 117,500 du
	Poor (P) major repairs required		P/S —market "bottomed out" —some abandonment —realistic expectations 9% 2,000 du	P/D —abandonment —foreclosures —multi-problems 8% 17,300 du	P/RD —firebombing —disaster —wholesale 1% 1,600 du	16% 40,900 du
		36% 81,700 du	49% 118,100 du	14% 30,100 du	1% 1,600 du	

Source: Goetze, Roll, *Building Neighborhood Confidence*, Ballinger, Cambridge, Massachusetts, 1976, p. 35.

Figure 2. Neighborhood characteristics associated with housing market condition classifications

tailored to neighborhood dynamics depending on whether the market reflects stable, rising, or declining dynamics. Figure 3 summarizes these revitalization strategies in general terms.<sup>3</sup>

Strategies for stable markets

Markets where housing is in good condition (G/S) do not require special neighborhood housing actions by the city beyond appropriate routine public improvements, city services, and equitable shares of general citywide housing credit and services. Where areas are stable but require moderate fix-up (F/S), technical assistance, housing code enforcement, and possible property tax incentives linked to repairs will usually maintain stability and improve conditions. Stable areas needing major repairs (P/S) often require additional government or private sector support such as special bank loan funds, federally assisted rehabilitation loans, or a homesteading program if they are to be restored to good repair. As long as the market is stable such programs have a fairly good chance of success, but an entirely different approach is required if the market is declining.

Strategies for declining markets

The strategies for assisting areas that are declining must differ radically from those appropriate for sound and rising market areas because the challenge is to appreciably increase housing demand. Homeowners, if they are concerned about the condition of their property, feel that decline is caused by forces they cannot fight: curtailed availability of lending and insurance; fear of lower rental incomes from new residents; racial change; and, as the self-fulfilling trend continues, visible deterioration, accumulating debris, and trash. Those who see housing primarily as an investment—both absentee property owners and banks—are inclined to overreact at the early stages of decline. Fearing deteriorating property values, they begin to disinvest, curtail maintenance, and extract what they still can out of their properties. Under these circumstances, a very unstable situation results, changing long-term resident owners into sellers. Statistics in Boston, for example, indicate that annual owner turnover is normally between 4 and 8 percent, meaning that among a thousand structures perhaps fifty seek a buyer annually (see Goetze;



		Market perception			
		Rising (R)	Stable (S)	Declining (D)	Rapidly declining (RD)
Housing condition	Good (G) minor repairs required	G/R —dampen outside demand —assist residents to remain —construct additional housing	G/S no special neighborhood actions		
	Fair (F) moderate repairs required	F/R —code enforcement —prevent illegal conversions —increase resident ownership  —new elderly and mixed income housing	F/S —code enforcement —technical assistance —tax incentives for repairs	F/D —demolish excess housing —value insurance —Neighborhood Housing Services, if requested —direct household assistance —quotas on occupancy	
	Poor (P) major repairs required		P/S —code enforcement —technical assistance —special loan fund —homesteading —demolition —new elderly and mixed income housing	P/D —direct household assistance —demolition	P/RD —direct household assistance —relocation —demolition

Source: Goetzle, Roll, *Building Neighborhood Confidence*, Ballinger, Cambridge, Massachusetts, 1976, p. 45.

Figure 3. Strategies for neighborhood housing revitalization

Golton; and O'Donnell 1977). As long as there are over fifty willing and qualified buyers, the neighborhood remains stable, but if only forty buyers show up, the remaining owners become inclined to disinvest unless active neighborhood promotion begins. Suddenly, there are many more sellers than buyers. Some owners may panic, willing to sell now rather than face the uncertainty of obtaining less later on. Others, hearing of price declines, may become frightened and also start dumping their property for whatever price, however low, it can bring. As people overreact, the bottom falls out of the market.

Many people are forced to remain because they cannot sell, but they begin to undermaintain. Others sell to buyers like absentee owners, communes, or minorities that price and social norms previously excluded. As appraisers, real estate brokers, and lenders become aware of the changing situation, the stage becomes set for disinvestment and abandonment that is hard to turn around. Media sensationalizing about the neighborhood only discourages its residents all the more.

Any effective fight against decline in neighborhoods such as F/D or P/D in the matrix in Exhibit 3 must first change the market perception of the area and this

often depends on initiative and promotion from within the neighborhoods. Attempts to save a declining neighborhood solely from the outside through government action generally fail. The attitudes of residents are key variables. Will the most capable local leaders stay and promote the neighborhood, or will they flee? City services and the strategies previously discussed for stable neighborhoods can prevent decay only in neighborhoods that have confidence in their own future. Code enforcement, technical assistance, and even special loan funds are useful only when they complement neighborhood self-initiatives. Imposed from the outside, or brought in by an insignificant minority of residents, they will be unable to effect housing upgrading (see U.S. Department of Housing and Urban Development 1975; Turner 1977; Urban Homesteading Assistance Board 1977; and Rogg 1977).

To make public improvements visible and to promise an improvement in city services are not enough. Rebuilding or replacing existing housing under the programs similar to the federal subsidy programs of the 1960s is not only too cumbersome but tends to undermine neighborhood confidence and to

reduce market demand when the subsidized beneficiaries are not seen as meritorious by the existing residents. The housing and urban renewal programs of the 1960s were largely oriented towards increasing the supply of housing and often provided few benefits for the existing neighborhood residents. They did not reckon with the need of low-income households for jobs and more income resources. Too often they rehoused a few while scattering the majority and provoking resident owners to depart.

If programs in declining neighborhoods are to be successful, direct household assistance to all eligible residents of declining areas may be necessary as an alternative to housing production assistance. Direct financial assistance in the form of either housing allowances or income supports coupled with job training and counseling gives priority to helping households, rather than saving or replacing specific residential structures in declining areas. Although there is no guarantee that an income approach would result in better housing (by objective standards) this approach could open up a wider range of housing choices for such households. The focus in declining areas, then, must be on the household instead of the housing; and upon changing market perceptions and demand as opposed to simply providing greater government assistance focused on physical improvements.

#### Strategies for rising markets

The posture in rising markets must obviously be different than in stable or declining market areas. The likelihood of housing revitalization is high due to private market forces and the emphasis is on assisting the current residents—particularly renters—and on preventing or easing the problems of dislocation. Speculative rent increases should not be necessary since the housing stock in these areas is basically in good repair and outlays are only rarely needed to correct deficiencies or to modernize. However, in such areas speculatively inclined owners are tempted to reap the gains of rising market values without any improvements in services (see Whiteside 1977; Embry 1977; Kotler 1977; The National Urban Coalition 1978; Weiler 1977; and Naparstek 1976). Proper code enforcement on those who sharply inflate rents can help encourage responsible ownership.

When speculation does get out of hand, tenant-landlord polarization increases, and formerly sound housing can erode at an alarming rate. When such collapse of the housing market occurs the shrewdest owners usually have already taken their windfall gains elsewhere and sold their properties to less experienced amateurs or newcomers.

Appropriate neighborhood strategies for F/R areas include special emphasis on code enforcement, monitoring illegal conversions, and widening owner-

ship options. Wherever repairs are required amidst a strong market demand, the dilemma is to clarify the rights of tenants with limited incomes who remain. Should they be allowed to live in substandard dwellings? If not, how much of the improvement costs should be passed on in increased low-interest loans or direct rental assistance to tenants (for example, through Section 8 leased housing)? Such subsidies could be granted to owners upon the condition that they make the improvements and continue to serve the existing tenants. But at present, neither subsidy nor direct assistance is generally available, and conditions involving income limitations tend to develop into an administrative nightmare even when such assistance programs are operative. Creating condominium options for present tenants may therefore offer promise. This would enable tenants to become owners and thus share in the rising market instead of being displaced by it.

#### General strategies

Besides the specific program recommendations noted in Figure 3 and discussed above, several general points should be stressed. First, public policy must be designed to increase the confidence in the future, not simply to underwrite fix-up costs. Boosting the image of urban living is appropriate wherever central city housing demand is slack in the face of a tight regional housing market. Without replacement residents to fill the vacancies of those who move away through natural turnover, any neighborhood quickly becomes blighted. In some no-growth cities there may not be enough housing demand to go around even as the baby boom generation settles down. The market is the best agent to identify the least desirable areas, but public priority should be given to aiding residents of these areas with special housing assistance like Section 8 certificates and relocation assistance.

Second, a housing restoration program must distinguish between strategies which are designed to upgrade the housing in a neighborhood and those which are designed to help the people. For example, in a rising market, private forces may assure the upgrading of the physical attributes of the neighborhood, and it is the needs of the residents being forced to relocate that must be dealt with.

Third, neighborhood strategies must be formulated within a citywide, statewide, and nationwide housing policy context. Certain elements are essential in almost all programs; it is their application that must vary. These elements include adequate credit; equity in, and reduction of, the burden of property taxation; reorientation of city agencies (such as code enforcement agencies) toward serving the housing consumer; availability of public sector funds to inject at the margin so as to stimulate confidence; reorganization of city agencies to improve the delivery of housing

services; and development of better partnerships between public and private efforts.

Finally, a housing restoration program must distinguish between problems that can be solved by a single injection of public resources as opposed to problems that will require more sustained public support like income maintenance, employment opportunities, or transfer payments. In areas where household income is adequate to guarantee routine upkeep, one-shot fix-up funds through government subsidized loans and grants coupled with areawide code enforcement may be effective in returning areas to good condition. But in some lower income areas, such tactics will only temporarily improve housing because inadequate cash flow will soon again lead to deferred maintenance.

The emerging policy recommendations set forth in this paper, then, add the dimension of neighborhood dynamics to housing condition in an effort to arrive at a newly orchestrated set of housing tools. Many of these tools have been available for a number of years, and there is nothing magic or absolute about them. Based on individual needs, preferences, and experience, particular cities may want to alter or shift the emphasis of the programs outlines. The most important point is that strategies must be tailored to neighborhood dynamics—what may prove effective in one neighborhood facing one set of market and housing dimensions may be counterproductive in another.

#### **Conclusions and recommendations: the "golden mean" of neighborhood stability**

Maintaining the health of existing urban neighborhoods requires an approach radically different from the special interventions devised during the 1960s, such as Urban Renewal, FHA mortgage insurance, programs to build subsidized housing, and the like. Not only is it becoming clear that resources are inadequate to equitably serve all of the potentially eligible households, but the programs themselves often appear to be counter effective. We currently have in our arsenal of public policy a wide range of housing programs and tools. However, before remedies can be applied a diagnosis is required.

A medical analogy furnishes some insights. The human body has a complex system for maintaining health that we only partially understand. When the system experiences infection, combat mechanisms are brought into play. A doctor assists these coping mechanisms in administering treatment, but he looks for contra-indications that signal when the assistance is doing more harm than good. This same bodily system may also allergically react to something in its environment and that is a quite different matter. An allergy is not an infection, but an overresponse

of the coping mechanisms to some outside agent, such as a pollen. Here the doctor attempts to suppress the coping mechanisms just enough to restore homeostasis, but not so much as to impair the normal defenses against infection. If we can associate disinvestment with infection, and speculation with allergies, then the public policy course is defined as aiding the neighborhood forces to combat the extremes of disinvestment on one hand, and speculation on the other.

Once we differentiate the pathologies it is relatively simple. Just as a patient may develop an allergy to penicillin administered to combat an infection, so a neighborhood can develop a serious reaction in response to well-intended policy interventions. "Iatrogenic" or doctor-induced illness is an important concept in medicine. It seems likely many of our neighborhoods can suffer similarly from misguided interventions into the neighborhoods' housing dynamics.

Much of our housing policy system in the past has been formulated on the idea of filtering or "trickling down" which accepts deterioration as inevitable. An examination of the curve of household settlement noted earlier in Figure 1, suggests that filtration theory was most appropriate to the steady growth period ending around 1955. While we may consider the last twenty years normal, the curve shows they were not. Blight may be sharply exacerbated by an overall slackening in settlement, the rate of new households forming and settling down. The nation is now entering a new period of settlement rapidly accelerating beyond the response capacity of the homebuilding system. This threatens to sharply inflate the value of the existing stock, and indeed, this process of inflation has already begun in many areas throughout the country.

Since the filtration theory only accounts for one form of neighborhood deterioration, the analysis in this paper demonstrates that filtration fails to fit the current situation. Instead, a stabilization approach to cover the period of 1970 to 2000, based on the concepts of supply and demand, is proposed. The stabilization approach identifies a "golden mean" between market extremes as shown in Figure 4. As market demand surges, areas considered declining will be rediscovered and will rise. Unless policy makers are aware of the shift, special public assistance like subsidized loans or special revitalization programs will simply aid the "gentry" in taking over the neighborhood from absentee owners and lower income tenants, displacing the latter.

In conclusion, a number of observations can be drawn for managers in both the public and private sector based on the dynamics described above.

1. *Revitalization strategies must be tailored to stabilize neighborhood dynamics.* Traditional government

Neighborhood market types	Declining (disinvesting)	Stable or ideal	Rising (gentrifying)
Symptoms indicators (or causes?)	<div>• Excess supply</div> <div>• Uncertainty in property values</div> <div>• "Red-lining"</div> <div>• Negative press image</div> <div>• Departure of the able</div> <div>• Discretionary sales</div> <div>• Increase in low down payment and/or government insured lending</div> <div>• Increase in absentee ownership</div> <div>• Rising tax delinquency</div> <div>• Property abandonment</div>	<div>G</div> <div>O</div> <div>L</div> <div>D</div> <div>E</div> <div>N</div>	<div>• Excess demand</div> <div>• Price inflation (real or anticipated)</div> <div>• Speculation</div> <div>• Strong press image</div> <div>• Immigration of higher class</div> <div>• Investment purchases</div> <div>• Conversion of marginal spaces into more dwellings</div>
Corrective remedies	<div>• Boost neighborhood image</div> <div>• Value insurance for resident owners</div> <div>• Improve jobs/income without stigma</div> <div>• Support neighborhood housing services if requested</div> <div>• Demolish excess housing (or mothballs)</div> <div>• Land bank vacant lots until stable</div>	<div>M</div> <div>E</div> <div>A</div> <div>N</div>	<div>• Dampen outside demand</div> <div>• Assist disadvantaged to remain</div> <div>• Enforce codes</div> <div>• Prevent illegal conversions</div> <div>• Reassess only upon sale</div> <div>• Construct additional housing</div>

Figure 4. Stabilizing neighborhoods

- assistance tools may be appropriate for stable neighborhoods where supply matches demand, but their effectiveness appears limited even where stability already prevails. The problem is even more severe for the neighborhoods where supply and demand are becoming mismatched. The new focus of policy should be to understand these mismatches and to correct them before they become wasteful and traumatic. In weak areas simpler, more direct owner and tenant assistance is required to rebuild neighborhood confidence and induce more demand while encouraging residents to remain. At the same time, the excessive demand affecting certain neighborhoods should be channeled off into essentially similar, but as yet less "chic" sections.
2. *In order to design sensitive revitalization strategies, further indicators must be developed to monitor neighborhood status and change.* We need unobjectional ways to classify neighborhoods and to identify shifts in market forces. How do neighborhoods respond to interventions, and what counter-indicators can be identified so as to inform us in time to avoid situations when residents begin to disinvest or leave? Such signalling devices will help us to reveal whether our current tools promote or undermine neighborhood well-being.
3. *Public and private resources should be used in cooperation so as to stimulate private investment.* Partnerships must be developed between the neighborhood, financial institutions (banks and savings and loan associations), and the city government.<sup>18</sup> Govern-
- ment programs formed "on high" will mean little if they are not in tune with neighborhood market dynamics. However, if people within a community identify a problem, they can work with the private and public sectors in seeking a solution.
4. *Federal, state, and local government programs should be inventoried and reviewed in light of the realities of neighborhood market dynamics.* "Neighborhood Preservation: A Catalogue of Local Programs," done under HUD contract by the Real Estate Corporation, represents an initial step in this direction.<sup>11</sup> These programs should be re-evaluated in light of the neighborhood stability theory. Which ones still operate effectively? To what neighborhoods are each appropriate?

As we monitor neighborhood dynamics and change, perhaps a relevant illustration lies in driving down the road into the future. All neighborhoods can be seen as traveling into the future. The demographic trends noted in Figure 1 provide an influx of demand that may help to support revitalization within our cities over the next decade. This new demand may provide an opportunity to overcome disinvestment, but it is also accompanied by a new set of problems—speculation and displacement. What we need is a feedback system to track our progress into the future to help identify when we are moving toward the edge. As long as we move on course, there is no need for intervention. However, if the course begins to veer, if the neighborhood path becomes erratic into speculation and displacement on the one side or disinvestment on the

other (or if a neighborhood is caught oscillating between speculation and disinvestment), then certain actions such as those discussed previously might be triggered by both the private and the public sector so as to help re-direct neighborhood dynamics back towards stability and the "golden mean."

In a few years it will be apparent how extraordinary the chances are at this time. The time of opportunity is now and ripe, but fleeting.

"This time, like all times, is a very good one if we but know what to do with it." Emerson.

Notes

1. In preparing this paper the authors drew heavily from a research project and report funded by the U. S. Department of Housing and Urban Development, Office of Policy Development and Research. The origins of the research trace back to June, 1972, when Rolf Goetze and Kent Colton began examining housing dynamics and census and market trends at the Boston Redevelopment Authority (BRA) Research Department. A purchase order from the Department of Housing and Urban Development in the summer of 1977 to Public Systems Evaluation enabled the synthesis of this initial research with the subsequent research efforts at the BRA continued under the direction of Rolf Goetze. For further description of the research see Goetze (1979).
2. For further discussion of the dialogue concerning the "back to the city movement" see James (1977); Gale (1977); Glas (1978); Fisher (1977); and Liver (1978).
3. Although not the subject of this paper, it is important to note that the trend will shift back around the turn of the century. As the number of households seeking housing drops around the year 2000, demand will fall, and a new set of problems will develop. Also see Alonso (1977).
4. The belief that neighborhoods can be placed on a single linear continuum has long been in currency. The best known work of this belief, *Dynamics of Neighborhood Change* (U. S. Department of Housing and Urban Development, 1975a) ranked neighborhoods from Stage 1, stable and viable, to Stage 5, unhealthy and runvable. This was on the right track because it put a national focus on neighborhood context, but it was too simple to be directly useful. Neighborhood redactioners was asserted to be simply reverse filtration in this model, but closer inspection has revealed that various types of revitalization have entirely different dynamics as will be shown throughout this article.
5. There are a wide range of definitions related to housing quality ranging from census definitions (used to such features as lack of plumbing and overcrowding) to actual inspections of houses to see if they are above or below housing code standards. In order to develop data on Boston on housing condition, trained housing inspectors conducted a "windshield survey" driving by each of the houses in the city and making estimates as to condition. For a further discussion of the methodology, see Goetze, Colton and O'Donnell (1977).
6. This article maintains that market perception is often the critical factor in neighborhood dynamics, although it is sometimes difficult to measure. This seems more intuitive when one remembers that perceptions are also important in a number of other areas of human behavior, e.g., stock market interactions, decisions to buy or sell a liquid investment, and overall consumer purchasing.
7. Some of the dynamics of neighborhoods were first noted by the authors in research conducted at the Boston Redevelopment Authority on "triple decker" housing in Boston. For a discus-

- son of the factors, see Boston Redevelopment Authority and Boston Urban Observatory (1975).
8. Some of the most interesting data and research relative to "tracking" neighborhood change has been done by R. L. Polk and Company. For a discussion of some of these ideas, see R. L. Polk and Company (undated).
  9. If the readers are interested in a more detailed discussion of these strategies they should see Goetze, Colton, O'Donnell (1977), or Goetze (1976). The reader may also find it interesting to relate the programs described here to those discussed in Kollias (1977).
  10. Over the last several years, important changes have been occurring relative to housing finance and financial institutional reform (for example, see Colton et al. 1977 and Colton 1978). These institutional modifications—such as alternative mortgage instruments—will have an important bearing on the financing of neighborhood change and highlight the importance of a partnership between the neighborhood, city, and financial institutions.
  11. See "Neighborhood Preservation: A Catalogue of Local Programs," prepared for the Office of Policy Development and Research, U. S. Department of Housing and Urban Development, February 1975.
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## IMPACT OF NATIONAL TAX POLICIES ON RENTAL HOUSING

Draft Outline April 1981 Rolf Goetze

- I Four Main Federal Policies Shaping Housing
  - A. Federal tax code rewards investing; penalizes saving
    - people pay taxes on interest received
    - people receive tax deductions for interest paid
  - B. Homeowner deductions especially enhance resident ownership
  - C. Investor housing deductions encourage title turnover
  - D. Federal housing assistance promised more than could be delivered
    - raising and maintaining unattainable housing expectations
- II Existing Tenure Situation in 1978 - Figures A and B
  - A. 34.8% of households are renters nationally; 26.9 out of 77.2 million households
  - B. renters under \$10,000 spend more than 29% of income on housing
- III Impact of Federal Tax Code on Existing Housing Stock
  - A. Encourages resident ownership
    - unit worth \$15,000 as rental is worth \$35,000 as a condo
  - B. Adding to stock is increasingly complex
    - federal, state, and local regulations favor highest income group zoning, multiple permits, anti-growth sentiment
    - urban sites even more complex
      - local tax arrangements, neighborhood opposition
    - federal and state housing subsidies are now diminishing
  - C. Existing stock easier to upgrade and modify
    - structures already there, fewer permit hassles
    - homeowner deductions are the best available subsidy
    - unit worth \$15,000 as rental is not appreciating due to rising finance costs and local rent constraints
    - units as condos are appreciating further as collectibles due to federal homeowners incentives, compounded by local conversion bans

IV Illustrative Rental Economics

Figure C Various Market Rents for the "Same" Unit

	deferred maintenance	break-even	upgrading
under current ownership	\$200/mo	\$250/mo	\$350/mo
after turnover	300/mo	375/mo	500/mo

A. Overview of local rent variations

- 1. without turnover
  - traditional (\$200/mo) anachronistic  
low debt service, deferred maintenance
  - break-even rent (\$250/mo)  
would avert deterioration
  - upgrading (\$350/mo) to offset deferred maintenance
- 2. turnover introduces current capital costs
  - increasing rents by \$100-150/mo
  - sensitizing residents to homeowner tax incentives  
\$417/mo = 25% of monthly income of a \$20,000/yr household

B. Housing costs seen in at least three perspectives

- 1. tenant: monthly rental outlay, now soaring
- 2. Resident owner: monthly homeownership costs (principle + interest + property taxes)
  - downpayment required
  - cost of entry rising even more rapidly, but more stable in long run
- 3. longterm: homeownership has become best investment
  - because of fixed rate mortgages, rapid appreciation and favorable federal tax treatment of capital gains
  - homeownership appeal could diminish with variable rate mortgages and lack of further appreciation



#### V Preliminary Conclusions

- A. In unsubsidized rental housing, traditional rents cease upon turnover to new investor owners
  - new buyers contemplate renting to more affluent, condo conversion, section 8 assistance, speculation, arson-for-profit, or playing "end game"
- B. Federal tax incentives for investor owners now encourage turnover through treatment of capital gains and depreciation allowances
  - formerly rental housing was like a high-grade bond with predictable positive cash flow from a stable asset
  - now increasingly like a speculative stock; negative cash flow only attractive as tax shelter to high tax bracket investors; but this requires turnover within ten years
  - inflation in mortgage interest rates and restricted credit for "slumlords" kills affordable rental housing at turnover

#### IV Possible Solutions to Assist Current Tenants

- A. Extending federal income tax deductions for local property and mortgage interest (included in rent) to tenants would be double counting, because investor owners already claim them
- B. Issuing rental housing vouchers (\$200/mo) for the 14.4 million households under \$10,000 per year would cost \$34.6 billion annually
  - home owner deductions estimated at \$22 billion in 1980 with one-quarter going to households with incomes over \$50,000/year
- C. Divert stock at turnover into new tenure forms:
  - limited equity cooperatives
    - requires much technical assistance and persuasion
    - nevertheless tax incentives very limited
  - condominiums
    - requires downpayments and persuasion
    - tax incentives limited to higher tax bracket households
  - homesharing (Seattle)
    - matches new residents with existing owners to use existing stock more effectively
  - accessory apartments create new units within existing structures (MAPC)
- D. Grandfather the rights of long-term (5 yr) existing tenants to remain at low rents (San Francisco and Oakland)
- E. Market the transfer of development rights to permit condo conversion only as new rental alternatives are created

## VI Possible Solutions to Assist Current Tenants (continued)

## F. Visibly decrease federal bias toward homeownership

- cap homeowner deductions and replace them with across the board tax credit for all income classes so existing rental supply is not bought up as investments by affluent

## VII In Summary

- A. Rental housing now costs more than people are willing to pay, gimmicks like tax shelter have become part of the problem
- B. Each past solution, like double-declining balance depreciation, has spawned greater subsequent problems (turnover, speculation)
- C. Tinkering and muddling along with new devices like limited equity cooperatives, homesharing, selling condo conversion rights may prove to be only more of the same
- D. Either come up with billions for rental housing vouchers or cut superfluous billions in tax expenditures which encourage the affluent to invest too much into existing housing

CONDOMINIUM DEVELOPMENT IN BOSTON

September, 1980

Boston Redevelopment Authority  
Robert J. Ryan, Director

Boston Redevelopment Authority  
Robert L. Farrell, Chairman  
Joseph J. Walsh, Vice-Chairman  
James B. Colbert, Treasurer  
James K. Flaherty, Ass't Treasurer  
James E. Cofield, Jr., Member  
Kane Simonian, Secretary

Report prepared by  
Bonnie Heudorfer

# Boston Redevelopment Authority

Robert J. Ryan, Director

September, 1980

Dear Mayor White:

I am forwarding to you a comprehensive report on condominium development in Boston and the impact of condominiums on the City's housing market. This study is intended to help the Mayor's Commission on Housing frame public policy recommendations on those aspects of condominium development which directly or indirectly affect housing in Boston.


I would like to point out that this report is not intended as an argument in favor of condominium development, nor is it intended to provide arguments for those who are opposed to condominiums. Instead, all aspects of condominium development are discussed within the context of this City's and this Country's housing dynamics during the past decade.

The study clearly reveals that a number of social, economic and demographic factors (many of which are related to national policies and trends) are responsible for the increase in condominium development in Boston in recent years.

We have analyzed and evaluated these forces and in so doing we have set forth both the benefits and costs of condominium development. We have also traced the history of condominium development in Boston and have made projections concerning future trends. In every instance the information presented is thorough and up to date.

Our findings also show that condominium development is interwoven in numerous ways with the whole question of supply and demand of housing in a City that is going through a process of revitalization. The policy recommendations we have made are aimed at helping the City to gain maximum benefits from condominium development. At the same time, we have made recommendations that would make condominium development blend in with public policy that is in the long-term interests of the City and its residents.

It is our hope that this study broadens understanding of the complex and varied factors that effect housing in Boston.

  
 Robert J. Ryan  
 Director

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 Boston, Massachusetts 02201  
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TABLE OF CONTENTS

INTRODUCTION AND SUMMARY OF FINDINGS

- I. BOSTON'S CHANGING HOUSING STOCK
- II. EMERGING PRESSURES AFFECTING SUPPLY  
AND DEMAND OF HOUSING
- III. HISTORICAL DEVELOPMENT OF CONDOMINIUMS IN BOSTON
- IV. CHARACTERISTICS OF BOSTON CONDOMINIUMS
- V. EFFECTS OF CONDOMINIUM ACTIVITY TO DATE IN BOSTON
- VI. OUTLOOK FOR FUTURE ACTIVITY
- VII. NATIONAL TRENDS IN CONDOMINIUM LEGISLATION
- VIII. ANALYSIS AND CONCLUSIONS
- IX. RECOMMENDATIONS

FOOTNOTES

APPENDICES:

- A. DETAILED LISTING OF CONDOMINIUMS BY ADDRESS
- B. METHODOLOGY
- C. BOSTON'S CONDOMINIUM CONVERSION ORDINANCE  
AND REGULATIONS

## LIST OF EXHIBITS

- I-1 CHANGES IN BOSTON HOUSING INVENTORY OVER TIME
- II-1 CHANGES IN CONSUMER PRICE INDEX AND RESIDENTIAL RENTS OVER TIME
- II-2 COMPARATIVE CHANGES IN RENT LEVELS OF CONTROLLED AND DECONTROLLED STOCK
- III-1 TOTAL RESIDENTIAL CONDOMINIUM DEVELOPMENT IN BOSTON
- III-2 NUMBER OF RENTAL ACCOMMODATIONS CONVERTED BY NEIGHBORHOOD AND YEAR
- III-3 SUMMARY OF WHAT TYPE OF STOCK WAS CONVERTED TO/DEVELOPED INTO CONDOMINIUMS
- III-4 PREVIOUS USE OF STOCK DEVELOPED AS CONDOMINIUMS BY STRUCTURE
- III-5 PREVIOUS USE OF STOCK DEVELOPED AS CONDOMINIUMS BY UNIT
- III-6 OWNERSHIP PATTERNS OF BUILDINGS BEING CONVERTED
- III-7 HISTOGRAM SHOWING PRICE DISTRIBUTION OF BOSTON CONDOMINIUMS
- III-8 TABLE DETAILING PRICE DISTRIBUTION
- III-9 NUMBER OF CONDOMINIUM SALES PER YEAR COMPARED WITH NUMBER OF UNITS DEVELOPED
- III-10 PROTOTYPICAL SALES PRICES, 1978
- III-11 PROTOTYPICAL SALES PRICES, 1979
- III-12 NUMBER OF MASTER DEEDS FILED BY MONTH
- IV-1 TYPES OF CONVERSION NEIGHBORHOODS AND CHARACTERISTICS ASSOCIATED WITH EACH, AS IDENTIFIED IN HUD STUDY
- IV-2 PROPORTION OF EXISTING TENANTS PURCHASING THEIR UNITS UPON CONVERSION
- IV-3 FINANCING PATTERNS IN THE SALE OF BOSTON CONDOMINIUMS
- V-1 GROWTH IN TAX BASE DUE TO ALL CONDOMINIUM DEVELOPMENT
- V-2 GROWTH IN TAX BASE DUE TO CONVERSION OF RENTAL UNITS TO CONDOMINIUMS

## LIST OF EXHIBITS (continued)

- V-3 RESIDENT PROFILE BEFORE AND AFTER CONVERSION
- V-4 AGE OF TENANTS BEING AFFECTED BY CONVERSIONS AND NUMBER OF PURCHASERS WITHIN EACH AGE GROUP
- V-5 PERCENT OF TENANT PURCHASES WITHIN EACH AGE GROUP
- V-6 PERCENT OF LONG TERM (3+ YEARS) TENANTS LIVING IN UNITS PRIOR TO CONVERSION
- V-7 AGE BREAKDOWN OF AFFECTED LONG TERM RENTERS
- V-8 AMOUNT OF PUBLICLY ASSISTED HOUSING IN VARIOUS CITIES
- V-9 CHANGES IN AGE STRUCTURES OF BACK BAY/BEACON HILL POPULATION, 1970-1978
- V-10 CHANGING OCCUPATIONAL STATUS OF BACK BAY/BEACON HILL RESIDENTS, PRE AND POST CONVERSION
- V-11 SELECTED SOCIOECONOMIC CHARACTERISTICS PRE AND POST CONVERSION LOCALLY AND NATIONALLY
- VI-1 AGE DISTRIBUTION OF TENANTS IN BUILDINGS PRESENTLY SCHEDULED FOR CONVERSION
- VI-2 TRENDS IN CONDOMINIUM DEVELOPMENT: PAST, PRESENT, FUTURE
- VII-1 COMPARISON OF MOST ACTIVE CONDOMINIUM MARKETS NATIONALLY
- VII-2 STATE STATUTES AFFORDING PROTECTION TO TENANTS IN BUILDINGS BEING CONVERTED
- VII-3 STATE STATUTES AFFORDING PROTECTION TO CONDOMINIUM PURCHASERS
- VII-4 LOCAL STATUTES AFFORDING ADDITIONAL PROTECTIONS TO ELDERLY AND HANDICAPPED TENANTS
- VII-5 LOCAL CONDOMINIUM CONVERSION REGULATIONS IN THE NATION'S LARGEST METROPOLITAN AREAS

## INTRODUCTION

Condominium development is an issue of growing concern in virtually every city in the country. There are a number of reasons why this trend, which is relatively new in Boston, has increased in recent years. Some reasons relate to the suitability of this type of housing to an urban environment. Other reasons are connected to major social, economic and demographic changes which have affected supply and demand of housing nationwide.

To put the condominium issue in its proper perspective, it is necessary to provide background information on changes that have occurred in population, employment and housing stock over the past decade in Boston. The report which follows details those changes and their relationship to condominium development.



SUMMARY OF FINDINGSChanges in Boston's Housing Stock

Condominiums make up two (2%) percent of Boston' housing stock, or approximately 5,000 of the City's 243,000 housing units. Approximately twenty (20%) percent of the condominiums in Boston are units located in buildings which formerly contained non-housing uses. The remaining eighty (80%) percent do not represent a one for one exchange of rental units to condominiums because of the recent trend toward the creation of larger condos out of single rooms and small apartments. Through 1979, 877 new condominiums were created where no housing previously existed, 3,693 rental apartments converted to 3,457 condo units, and 722 single rooms became 247 condos.

While those 4,500 rental accommodations (including the rooms in lodging houses) were being converted in Boston during the past decade, the City increased its number of subsidized housing from 21,000 to 39,000 units. Thus, for every condominium unit produced in Boston over the past decade, there were four units of subsidized housing produced.

On the other hand, the inventory of one-to-four unit family housing in Boston has gone from 139,000 units in 1970 to the current 130,000 units.

Changes in Boston's Population

The condominium phenomenon has taken place at a time when the number of people in the 25-34 year old age group (the so-called household formation age) has increased in the City. The number of people in this age group could increase by thirty (30%) percent by 1985 given the City's current growth pattern.

The growth of smaller size households and lifestyle changes (more divorce, later marriages) has also contributed to the growing demand of Boston's housing stock.

#### Why Condominium Development Occurs

Federal income tax policy--and the deduction of mortgage interest and property taxes from taxable income--has always been a major incentive for homeownership. In areas where more traditional single family stock is unavailable interested homebuyers have turned their attention to condominium ownership.

In addition, increases in housing values nationally have outstripped the Consumer Price Index and that also makes for another financial incentive to own property rather than live in rental housing.

It is important to note that the increase in condominium development occurred during a time when the national economy experienced high rates of inflation and ownership of property emerged as a possible hedge against inflation.

The imbalance in tax benefits to homeowners compared to tenants is in large part responsible for the increasing financial difficulties of the rental housing industry. Homeowner tax benefits in effect lure away the best part of a landlord's market--those tenants who can afford to pay the higher rents necessary to cover increased operating costs. As soon as these renters reach a certain financial threshold, tax savings and potential appreciation make ownership more attractive than continued renting. Thus, because rent levels have not kept pace with the increased cost of owning and operating rental property, many landlords have chosen to convert apartment buildings to condominiums.

Rate of Condominium Development in Boston

Even with these demographic changes, the incentives to own housing, and other incentives to convert apartments to condominiums, condominium development in Boston got off to a relatively slow start and even today the nature of condominium development here is markedly different than most other cities. The first condominium conversion took place in 1969 and activity increased slightly in 1973 and 1974. There was a lull until 1978 when 900 units came onto the market. 1979 produced another 1,600. Over fifty (50%) percent of the City's condominiums were developed in 1978 and 1979.

The volatile mortgage market in the first part of 1980 and enactment of the City's ordinance which requires a one-year notice to tenants prior to eviction for conversion, coupled with a glut of units converted during the last quarter of 1979 resulted in a leveling off of activity during the first six months of 1980.

As prices in the Back Bay/Beacon Hill neighborhoods continue to climb, condominium purchasers are looking to nearby areas where similar units are available at two-thirds (South End) or one-half (Allston) the price.

One to four unit buildings are now being marketed for sale as condominiums in Charlestown, East Boston and Jamaica Plain. Larger rental properties are being converted in Dorchester, South Boston, Roslindale and Hyde Park.

The sale of a 350 unit complex in Brighton to an outside converter is one indication that firms specializing in conversion are becoming interested in Boston. Entry into the marketplace by "outsiders" may mean that Boston could experience large-scale as-is conversions of luxury properties, typical of other cities such as Chicago and Philadelphia.

### Characteristics of Condominiums in Boston

Buildings converted to condominiums in Boston tend to be smaller than buildings converted in other cities. The median number of units per condominium in Boston is six. Of rental properties converted to condominiums in downtown Boston, only seven (7%) percent contained over 25 units.

Boston is somewhat different from other cities in that a relatively small proportion of newer and luxury rental housing has been converted to condominiums. While the earliest conversions were clearly of high quality rentals, over half the buildings converted to date were previously moderately priced rental housing. Boston has also created more units through recycling and adaptive reuse than other cities.

Eighty-five (85%) percent of Boston's condominiums are occupied by the owner or his/her immediate family, and nearly three-quarters of all condominium purchases have been financed through a conventional institutional lender.

Condominiums in Boston have been developed by and large by individuals who have had prior experience in Boston real estate. Whether from the rehab business or from backgrounds as brokers, these individuals confined their activity to one, or possibly two, neighborhoods and concentrated on a particular type of conversion. Thus far, Boston has had relatively little experience with outside firms which specialize in carrying out conversion of rental properties to condominiums.

### Benefits to the City from Condominiums

The most obvious benefit of condominiums to the City of Boston is the increased tax revenue provided by these units. Condominium development in Boston since 1970 has increased the City's tax base by nearly \$17,500,000. Put another way, the tax rate would be \$10.00 higher were it not for condominium development.

Condominiums also seem to contribute to neighborhood stability. The turnover rate for Boston's rental housing, for instance, is about thirty (30%) percent each year. But the annual turnover rate among condominium owners is about six (6%) percent, comparable to that for the City's other homeowners.

#### Costs to the City from Condominiums

Condominium conversion has resulted in loss of rental housing in the City. Since 1970, 2,200 rental apartments in the Back Bay/Beacon Hill were lost to condominium conversion. In addition, 600 rooms in lodging houses were converted.

In the earlier years of condominium development, those most affected by displacement tended to be older, long-time renters. In recent years, it is younger, more transient renters who are the most affected by condominium conversions. Non-downtown conversions are more likely to affect an older population than those in the downtown neighborhoods.

Of renters who moved out of units converted prior to 1974, less than half were under age 34. By 1978 this percentage had increased to three-quarters, and by 1979 over eighty (80%) percent of the renters who moved at the time of conversion were under age 34.

The phenomenon seldom directly impacts families with dependent children. Until now, the City's bread-and-butter housing stock, that is 1-4 unit buildings with owner-occupants, has been little affected by condominium conversion. High interest rates, rising property values and revaluation represent a greater threat to this housing stock than condominium conversion.

Displacement of lodging house residents has emerged over the past few years as the most serious negative aspect of condominium conversions.

#### Future Trends

On balance, because the City encouraged the construction of low and moderate income housing over the past decade, the City of Boston has gained more low and moderate income level housing than it lost during these past ten years.

As the City enters a new decade, it is reasonable to assume that social, economic and demographic forces which created the demand for condominiums will continue to exist in the foreseeable future.

Conversions will continue in the downtown neighborhoods which are experiencing the largest increase in population, particularly through smaller size households. Housing built in the 1960's in stable, non-downtown neighborhoods will be a secondary source of condominium conversion in future years, principally because their continued operation as rental housing makes little economic sense.

#### Recommendations

A number of actions at the Federal, state and local levels can help

- o encourage the preservation of existing rental housing,
- o add to the supply of rental housing,
- o increase the supply and affordability of housing for owner occupancy, and
- o minimize the disruption that might occur when a property is converted.

In doing so, it may be possible to match housing demand with housing supply and therefore control and/or manage condominium development within the context of the City's overall housing policy.

Federal

Federal actions could include the following steps:

1. Increasing tax benefits for tenants and/or landlords.
2. Continued support for subsidized mortgages to encourage construction and rehabilitation of rental stock.
3. Increasing direct rental assistance for eligible tenants in private market housing.
4. Adoption of an "excess profits" tax on the sale of rental properties to condominiums (but not on unit resales).
5. Adoption of "anti-speculation" tax on sale of all properties by non-resident owners in cases where resale takes place within five years without substantial rehabilitation.
6. Amending the tax code to discourage the conversion of rental property by third parties, a process which results in inflated unit prices.
7. Allow funding mechanisms and target funding sources for specific purposes -- the preservation of existing rental housing or new construction of 2-4 units homes, for example.

STATE

1. The most appropriate role for state government is one of assuring that conversions comply with existing regulations designed to insure consumer and environmental protection, and also to provide uniform minimum standards for tenant protection in the absence of local regulations. Passage of the Uniform Condominium Act would be an appropriate step toward insuring consistency and quality in condominium conversions.
2. The State should also re-evaluate existing laws and regulations to determine which pose unnecessary barriers to new construction, housing fix-up and adaptive reuse.
3. In the absence of Federal "anti-speculation" or "excess profits" tax, the State could assess such, and, in effect, recapture some of the anticipated Federal tax benefits.
4. The State could also target its rental assistance programs to tenants confronted with conversion, if in fact, it deems that those being affected are especially needy.

Local

City government can do little to change national trends such as the rate of inflation which, coupled with preferential treatment of homeowners, directly encourages condominium conversion. On the other hand, the City can use incen-

tives and disincentives to insure that the housing market does not encourage condominium conversion at the expense of other kinds of housing. The City also has a responsibility to minimize the disruption that conversions can cause its tenant population. One important aspect of this responsibility, however, is to articulate realistic tenant responsibilities, as well as rights.

Local actions could include the following:

1. Routine annual or semi-annual rent adjustments based on increasing operating costs and inflation.
2. Establish assessments for rental property that reflect their depressed value as rentals. By recognizing that the worth of such property in a community that values its preservation is a function of its present earning power (income capitalization) the tax liability of moderately priced rental units will be reduced.
3. Encourage the purchase of smaller multi-family stock (2-6 units) by owner occupants willing to preserve the other units as rental.
4. Expand the housing supply by encouraging new construction and adaptive reuse, as well as preservation, maintenance and rehabilitation of existing stock (both public and private).
5. Reduce excess demand by allowing evictions only for owner occupied condominiums and by requiring certain pre-sale requirements before evictions can proceed (except in cases of substantial rehabilitation).
6. Dissipate demand through use of incentives to bolster housing demand in weak market areas.
7. Protect existing residents by guaranteeing them right of first refusal on both the building and their unit if offered for sale as a condominium.



# I. BOSTON'S CHANGING HOUSING STOCK<sup>1</sup>

Boston's housing stock, after having been reduced by 7,400 units between 1960 and 1970, experienced a net increase of 10,800 units in the last decade. Such changes become more meaningful when the stock is classified by category: one-to-four family homes; condominiums; publicly-assisted housing; and unsubsidized, privately owned apartments of five or more units. Within this framework, the following changes have occurred:

1. The number of units in subsidized projects has increased to 39,200 from 14,100 in 1960. However, increasing vacancies in the older family housing projects (which now stand over one quarter vacant) have undermined these gains somewhat.
2. The one-to-four family inventory has been eroded as a result of abandonment and demolition. Most of these losses have been rental units in absentee-owned two and three family homes. Virtually no replacement housing of this type is being built. Where it accounted for two-thirds of Boston's housing in 1960, it now represents only fifty-four (54%) percent. The market for rental units in these small owner occupied buildings has continued strong. Such housing is often bargain priced by current standards but the favorable rent levels, in many cases, are the result of a long-term owner having no mortgage debt outstanding. The future of such units as a moderately priced housing resource is jeopardized by inflation and high interest rates, not condominium conversion.
3. Unsubsidized apartments, which increased as a percent of total stock through 1970, have since declined by three and one-half (3.5%) percent. Although over 3,000 new units were built during the 1970s, these gains were more than offset by the continued loss of older rentals. To date, only about three (3%) percent of the 1970 apartment base has actually been lost (i.e., to abandonment and demolition). However, approximately five (5%) percent has been converted to condominium ownership and a similar number has been removed from the private stock, rehabilitated, and rerented under federal or state subsidy programs.

This stock experienced a low vacancy rate through 1970, but loosened up significantly by the middle of the decade. The vacancy rate, by all indications, is presently at an all time low.

Exhibit I-1 summarizes these changes, the net effect of which is a substantial loss of conventional rental housing in the City, and a shift to federal/state subsidy programs to accommodate the needs of low and moderate income households.

## Exhibit I-1

CHANGES IN BOSTON'S HOUSING INVENTORY  
1960-PRESENT  
(Thousands of Dwelling Units)

Year	1-4 Family Homes		Apts. (5+ Units) Unsubsidized		Apartments Subsidized		Condominiums		Total
	#	%	#	%	#	%	#	%	
1960	158.8	66	66.6	28	14.1	6	0	0	239.5
1970	139.0	60	71.2	31	21.9	9	0	0	232.1
1975	134.8	56	71.2	30	34.3	14	.9	.4	241.2
Present	130.3	54	68.7	28	39.2	16	4.5	2	242.7

CHANGES IN UNSUBSIDIZED MULTI-FAMILY INVENTORY  
1970-PRESENT

Year	Built Pre-1960	Built 1960-1970	Built 1970-Present	Total
1970	61.9	9.3	-	71.2
Present	56.8	8.8	3.1	68.7
% Change	-9%	-5%	-	-3.5%

Population Changes

During the same period, Boston underwent some significant population changes. After experiencing a decline in population of one-fifth between 1950 and 1970, the City's population has stabilized. According to the Bureau of the Census, Boston lost three and six-tenths (3.6%) percent of its population between 1970-1976--a modest decline relative to other large cities nationally--while the metropolitan area grew by one and one-half (1.5%) percent. The 1975 State Census registered a much more negligible decline for the City of one-half (0.5%) percent and a growth of two and four-tenths (2.4%) percent for the metropolitan area.

These overall figures, however, mask some important changes that have occurred in age structure and household composition:

1. While the overall population of Boston has declined by nine percent since 1960, the number of persons in the 20-34 year cohort--the household formation age group--has increased by twenty-four (24%) percent.
2. These newly forming households were able to settle into units that had been abandoned by the older age groups who moved out of the City in large numbers (declining by sixteen (16%) percent) during the same period.
3. As the population declined from 697,000 in 1960 to 638,000 presently, the number of housing units remained relatively constant overall. Yet demand for housing, particularly in the downtown neighborhoods, has been increasing. This reflects the decline in household size--a national phenomenon--from 2.91 persons per household in 1960 to an estimated 2.67 today.

#### Boston's Changing Economy

Total employment in Boston has long been steady at over half a million. Most recent estimates put the number of jobs at about 521,000. Since 1960, the average annual number of jobs in the City has only fluctuated by about 50,000. However, beneath the overall fluctuations, important trends have emerged in the City's industrial composition. Service employment has experienced dramatic growth in the past twenty years, largely offsetting the decline in manufacturing and retail trades. Nationally, service jobs have become more prevalent, and Boston's position has been enhanced by the substantial investment in medical and educational facilities as well as an increase in office construction. While the City's population and overall employment base was stable or declining between 1968 and 1978, Boston gained more than 90,000 office jobs, most of them located in the downtown. This reflects the "downtown orientation" of many of the growth industries--health, education, business services, finance, insurance, and real estate--and a tremendous investment in office construction.

This growth in service sector employment has resulted in an increase in income for a large number of Boston households since 1960. Another manifestation of the changing employment composition has been the increasing concentration of jobs in downtown Boston, coupled with an increased interest in inner city living prompted, in part, by a desire to be closer to work. Earlier BRA studies have documented this increased demand and since relatively little new market rate housing has been built during this period, much of the demand has been channeled into the existing inventory.

To date, these pressures have been most severely felt in the downtown<sup>2</sup> neighborhoods. However, that may change during the coming decade. The conditions outlined here set the stage for the emerging competition among various interest groups who will be vying for housing during the 1980s. It is within this context that the trend toward condominium conversions must be analyzed.

## II. EMERGING PRESSURES AFFECTING SUPPLY AND DEMAND OF HOUSING IN BOSTON

The social, economic, and population changes that are now occurring exert pressure in two distinct areas: (1) the overall availability of housing units, and (2) the ownership of that housing.

### Imbalance Between Supply and Demand

Housing production in the Boston area is not expected to keep up with demand because of the current slowdown in new housing starts, emerging population pressures, and changing lifestyles. On the supply side, there are a number of factors inhibiting new construction--lack of affordable land, tight mortgage credit, high construction costs and anti-growth sentiment in many communities. In the case of rental housing, the situation is further aggravated by the fact that rent levels necessary to support high development costs are presumed to be unattainable in most areas; that rents have not kept pace with inflation or with increased cost of providing housing services or homeownership; and that rental inventory faces greater uncertainties than other housing types due to governmental regulation and political pressures, e.g., rent and eviction controls, tax uncertainty, and consumer protection measures.

On the demand side, there are two primary population factors at work that increase demand. First, a growing proportion of the national and local population is twenty years of age or older, implying more households. This is a result of the coming of age of the post-war baby boom. Boston, like the rest of the country, experienced its share of the boom. According to earlier BRA studies, even with a three (3%) percent decline in Boston's total population by 1985, the number of persons in this important 20-34 year cohort will increase by more than twenty (20%) percent over the present; assuming a modest overall growth, it will increase in number by nearly thirty (30%) percent. (By comparison,

this group increased by twenty-four (24%) percent during the past twenty years.) The pressures this burgeoning demand will bring to bear have already begun to manifest themselves in Boston:

1. Rent levels and property values are up over their depressed 1970-1975 levels.
2. There is renewed developer interest in the possibility of constructing market rate housing in certain select areas of the City.
3. There has been a noticeable drop in the vacancy rate since 1975 from over six and four-tenths (6.4%) percent in 1970 to less than half of that at present despite a reduced overall population and an expanded housing supply.

A second factor increasing demand is the growing tendency toward smaller size households which was documented earlier, and is likely to become even more widespread. Several demographic factors underlie this trend: a tendency on the part of young adults to delay or forego marriage and child-raising; an increasing number of young men and women who desire and can afford separate housing; an increased divorce rate; more "empty-nesters"--the parents of the post-war babies; and more elderly people who desire and can afford to live alone. In addition, Boston continues to attract large numbers of college and graduate students.

These groups, as a whole, are expressing more of a preference for urban living than ever before. Among the factors contributing to this preference for urban living are convenience, proximity to work and cultural/recreational opportunities, the lower cost of single family housing than in the suburbs, more diversity of housing types (e.g., duplexes and triple deckers to defray the costs of homeownership or multi-unit structures where the maintenance required of individual owner is less than in detached structures), and availability of public transportation. Because of the greater disposable income of these smaller households they can find ways to live around some of the difficulties or inconveniences of urban life.

#### Factors That Encourage Ownership Over Renting

Federal income tax advantages--most especially the deduction of mortgage interest and property taxes from taxable income--are, of course, an incentive to homeownership.<sup>3</sup> Conversely, the lack of similar tax breaks for renters not only penalizes long-term renters, but it increasingly encourages mobile households who might be in a location only temporarily to buy and sell at each move. The fact that increases in housing values nationally over the past decade have outstripped the consumer price index has made homeownership even more attractive from an investment standpoint. Individuals and households with enough accumulated capital for a down payment recognize that the impact of continued inflation on equity invested in real property will produce larger and more reliable returns than comparable investments such as the stock market. The appeal of a tax shelter combined with a sound investment has made housing particularly attractive to upper income households pushed into higher tax brackets. Foreign investors are similarly being attracted to American real estate markets in increasing numbers. Large non-real estate corporations have also entered the housing market increasing the number of sales transactions and altering ownership patterns but not adding to total stock. For these reasons, housing purchases today often do not represent the buyer's primary residence (the traditional reason for purchasing a home), but simply an investment opportunity. Condominiums are attractive to such investors because they are perceived of as being relatively maintenance free, and in areas of growing housing demand.

Finally, the American ethic of homeownership continues to dominate housing policy at all levels of government and is reinforced by hidden persuaders in all segments of society.

These competing pressures have created a "gold rush" mentality in many areas of the country, resulting in speculation and panic buying. In large part, Boston's housing stock has not been subject to such speculation. Demand here has come almost entirely from owner occupants. However, the factors that generate demand are likely to be around for some time to come, leaving open the possibility that the Boston market is not inherently different than other cities but rather just behind them in condo activity.

#### Factors That Discourage Investment in Rental Properties

The reasons discussed above explain why people are buying housing, and condominiums in particular. There are also compelling reasons for owners of existing rental properties to sell. One such reason is the opportunity to realize a large profit in a relatively short period of time, either by selling to a converter or by converting one's own building. This is an especially attractive inducement for long term owners who are no longer making a satisfactory return on their accumulated equity and whose properties are worth much more based on their condominium potential than on their capitalized net income as moderately priced rentals.

Owners of rental property are selling out because their business has become increasingly more difficult and costly at the same time that it is becoming less profitable. Despite the relatively high prevailing rents in decontrolled units in downtown Boston neighborhoods and a generally improved rental market over the past few years, rent levels have not kept pace with inflation, homeownership cost, or with the increased cost of owning and operating property in general.



Exhibit II-1 illustrates that residential rents both nationally and within the Standard Metropolitan Statistical Area (SMSA) have not kept pace with the consumer price index (CPI) over time. Nationally rent increases have lagged the CPI since 1967, but the disparity has become more pronounced since 1973. Locally rents followed the CPI fairly closely until 1973, then diverged sharply. While complete data are not available for Boston specifically, a sampling of representative controlled and vacancy decontrolled units here indicates that sharp increases in some of the decontrolled stock over the past two years have raised rents in those units to above the regional average though they still trail the CPI. Rents in controlled units have continued to lose ground. Many, in fact, have not increased since the 1977 general adjustments which represented a dollar for dollar pass through only of increased taxes.

Exhibit II-2 further illustrates the inconsistency of rent increases in Boston's stock. Here rents for prototypical units (from the preceding chart) are plotted against those for a typical Brookline unit which was adjusted annually by that town's Rent Board. Even with a forty (40%) percent increase under vacancy decontrol, the overall Boston increase still lags the CPI by five (5%) percent. It is, however, ahead of Brookline by eight (8%) percent. The rent level of the controlled unit lags both--the CPI by a third and Brookline by sixteen (16%) percent. The income expense ratio is further distorted by the fact that the components of housing cost--fuel, insurance, mortgage credit--have increased at a much greater rate than the overall rate of inflation.

The age and attendant inefficiencies of Boston's rental stock, the City's overdependence on the property tax, its practice of taxing rental property in a way that does not reflect its depressed value as a rental and New England's

Exhibit II-1

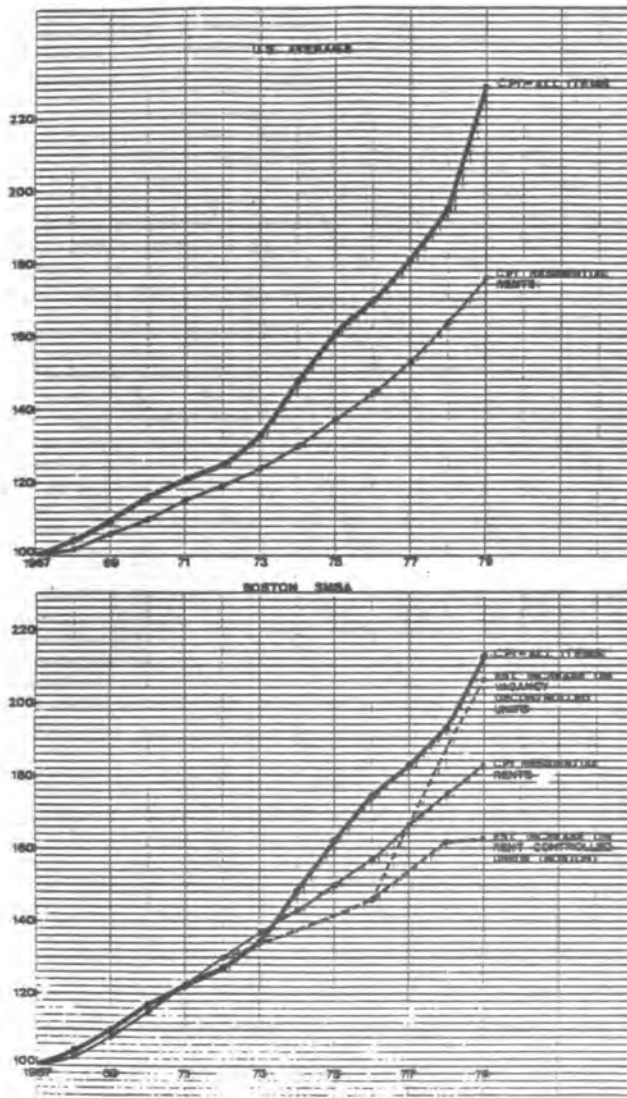
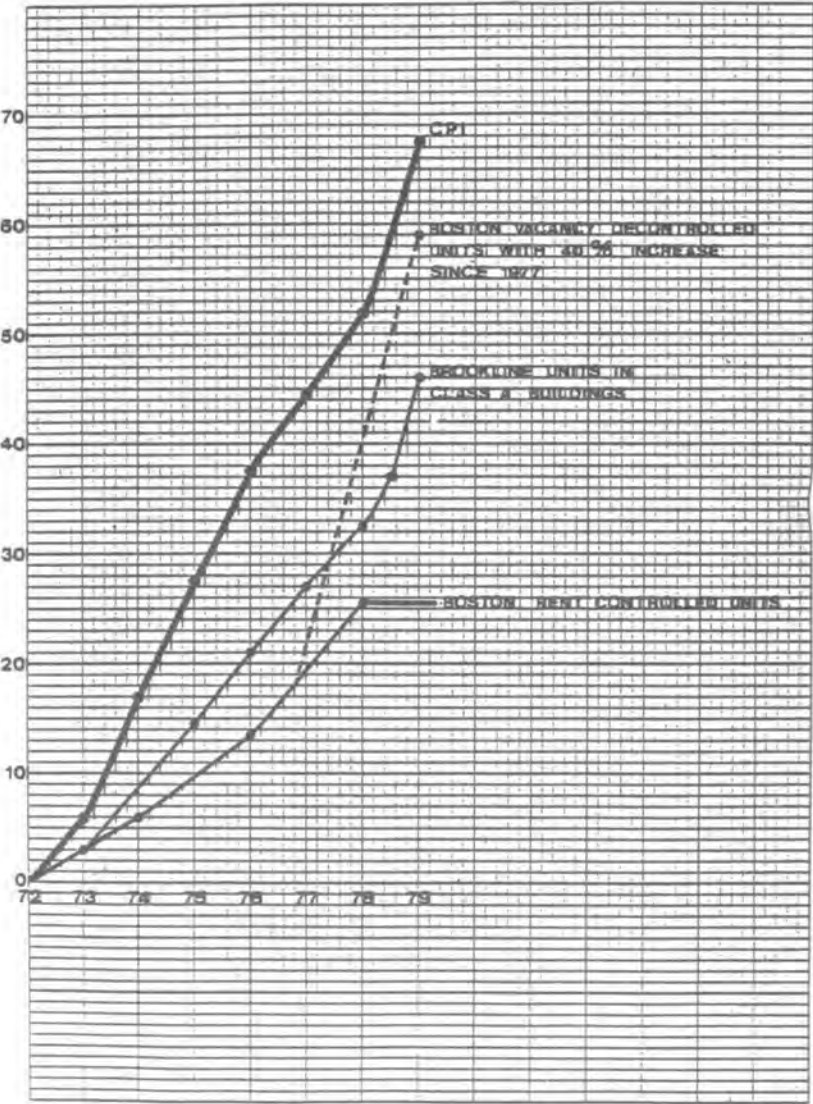


Exhibit II-2



high fuel costs are among the factors that disproportionately increase costs here. The presence of rent controls, the absence of routine annual rent adjustments reflecting increased operating costs and inflation, and affordable housing alternatives in the form of homeownership opportunities in many Boston neighborhoods have served to limit obtainable rent.

Recent actions at all levels of government have further served to polarize the relationship between landlord and tenant. In an era of consumerism the tenant (consumer) is protected against the landlord (supplier) in ways that are perceived by both parties as being antagonistic. In no state are these laws more of a hardship to owners than in Massachusetts.

In addition, national trends and policy effect real estate investment and ownership locally. Two of the most important aspects of investment in rental properties are taxes and depreciation, and their actual benefit in real estate investments. The tax implications and their importance to real estate decision making are quite apparent, as evidenced by the number of investments which are entered into exclusively for their tax benefits. What has been less apparent to policy makers is how these federal tax laws alter ownership patterns and market dynamics on a local level.

The nature of mortgage interest deductions and depreciation is such that after a certain period of time an investment property may no longer be of as much value to its original owner, even if it continues to generate a positive cash flow and does not pose any management problems. The option of selling such property was made more attractive by a 1978 change in federal income tax law which reduced further the already relatively low capital gains tax on real estate transactions. Technically a property owner who converts and sells his own units as condominiums would be considered a dealer and the proceeds of the sale would be taxed as ordinary income. If, on the other hand, he sells to a

"converter" his profit would be taxed at the lower capital gains rate (assuming that the owner is in a higher income bracket). This tax structure has led to a proliferation of middlemen in some areas (Chicago, for example) where the conversions have involved large properties. In Boston, due to the scale of development and nature of ownership this trend has to date been less pronounced, and a number of owners have converted their own properties.

Public policy has not adequately addressed the economic and social implications of these recent forces in our economy; and it is just beginning to address the implications of current social and demographic trends. All these factors considered, it comes as no surprise that condominium ownership, in areas of strong market demand, is a concept whose time has come. The BRA has closely monitored condominium development in the City and details regarding the extent, location, market, and impact are presented in the following chapters.

### III. HISTORICAL DEVELOPMENT OF CONDOMINIUMS IN BOSTON

The first condominium was created in Boston in December, 1969, with the filing of a master deed for 20 Gloucester Street. With mortgage financing from Commonwealth National Bank, Edward Britt, a Boston developer, converted an eight-unit luxury apartment building to condominiums. The units ranged in size from studios to three bedrooms and in price from \$12,000 to \$48,000.

Since that time, newly created and converted condominiums have become an increasingly important component of the City's housing stock. (A site specific listing of condominium developments, as well as a breakdown by year, appears in Appendix A.) While they still account for only two (2%) percent of the City's total housing, the sharp increase in the past two years in number and type of properties being converted makes the impact more significant than the numbers indicate. Furthermore, although it appears on balance that there has been an even trade-off--rental units to condominiums--there have been important shifts in the type of housing accommodations provided and, in some cases, the population being served. The trends in condominium development have gone through three distinct phases in Boston and we may be at the threshold of a fourth:

- 1969-1973, The Pioneering Phase: owners converted 6-12 unit luxury rental properties in the core area, then tested other neighborhoods and ended up overproducing.
- 1974-1977, The Consolidation Phase: absorbing the overproduction along with further experimentation in new markets.
- 1978-1979, Resurgence: fueled by consumer acceptance and sharply increased demand, the creation of condominiums begins to occur on a limited scale in half the neighborhoods in the City, while activity in the close in neighborhoods booms.

Current Activity: consumer demand continues to reinforce resurgence; however, significant--often subtle--changes are occurring in the behavior patterns of various actors which may radically alter the nature of Boston's condominium market.

### Summary

Through 1972, condominium development was limited to the conversion of luxury rentals in Back Bay and Beacon Hill. The number of conversions increased dramatically during 1973 and 1974, but the demand did not keep pace, and activity slacked off for the next three years while the excess units were absorbed. Throughout this period, units were typically converted in the "as is" condition so there was no net loss of housing units. By 1978, however, condominium conversion as a route to homeownership had become widely accepted; and the social, economic, and demographic forces which encourage both buyers and sellers were becoming evident. Nearly 900 condominiums came onto the market that year, representing a loss of some 700 rental accommodations (including lodging house rooms). Over sixteen hundred were completed in 1979. However, the resulting loss of rental accommodations approached 2,000, largely because of the number of lodging house conversions. By the end of 1979, master deeds had been filed on some 4,500 residential condominium units in 350 properties (Exhibit III-1). In addition, approximately 100 other properties have been identified as having already been converted in 1980 or presently in the process of conversion at the time of this writing, bringing the total to over 5,000 units. During the past two and one half years the trend has expanded into more than a dozen City neighborhoods (Exhibit III-2).

Not all of the condominium development has resulted from the conversion of rental housing. About twenty (20%) percent of the units were net new additions. Included in this category are units gained through new construction, recycling of non-housing space (e.g., warehouses or dormitories), and subdivision of single family homes. And the remaining eighty (80%) percent do not represent a one for one exchange of rental units to condos because of the recent trend toward the creation of larger condominiums out of single rooms

## EXHIBIT III-1

TOTAL RESIDENTIAL CONDOMINIUM DEVELOPMENT\*  
IN BOSTON, 1969 - PRESENT

<u>Year Developed</u>	<u>No. of Buildings</u>	<u>No. of Units</u>
1969	1	8
1970	2	20
1971	7	219
1972	13	145
1973	23	573
1974	28	505
1975	16	236
1976	22	179
1977	21	171
1978	60	897
1979	155	1,626
Total as of January 1, 1980	348	4,579
Estimated total January 1, 1980 through July 31, 1980	60	700
Estimated Total as of August 1, 1980	408	5,279

\* Includes new construction, adaptive reuse, conversion from single family dwellings, etc.



Exhibit III-2

NUMBER OF RENTAL ACCOMMODATIONS CONVERTED TO CONDOMINIUMS,  
BY NEIGHBORHOOD AND YEAR  
(Figures in Parentheses Refer to Lodging Houses)

Year	City Total	Back Bay	Beacon Hill	N. End Wfrrt.	South End	Jamaica Plain	Allston/ Brighton	Chasn.	South Boston	Fenway	West Roxbury	St. Bosolph	Rosl.	Bay Village	Dor.	Kenners
	Bldgs./ Units															
1969-																
1972	23/392	14/276	7/75		1/24					1/17						
1973	20/410	13/165	4/25	1/30		1/121					1/59					
1974	25/495	15/376	7/63	1/43	2/13											
1975	12/84	4/27	7/41	1/16												
	(3/60)	(2/51)	(1/9)													
1976	13/76	9/50	2/8	1/9				1/9								
	(4/103)	(3/61)	(1/22)													
1977	20/166	9/67	6/27	4/24			1/48									
	(1/15)	(1/15)														
1978	40/630	22/234	10/100	5/52			1/50		1/41		1/145					
	(4/54)	(2/21)	(2/33)													
1979	104/1440	36/487	20/166	10/191	9/46	3/64	6/225		2/36	3/20	1/110	7/33	2/39	1/4	1/6	1/12
	(29/490)	(16/213)	(7/152)		(6/125)											
Sub-Tot	257/3693(1)	122/1682	63/501		12/83											
	(41/772)(2)	(23/366)	(12/231)		(6/125)											
TOTAL	290/4415(1+2)	145/2048	75/771	23/365	18/208	4/185	10/324	1/5	1/77	4/37	1/324	7/33	2/39	1/4	1/6	1/12
Totals: Pre-1978:		121 buildings/1,001 units or rooms														
1978:		44 buildings/584 units or rooms														
1979:		133 buildings/1,930 units or rooms														
% of total concentrated in Back Bay and Beacon Hill:																
Pre-1978:		87%/77%														
1978:		82%/58%														
1979:		59%/53%														

Note: These totals are greater than the number of condo units created by their conversion since it took on average, 3 lodging house rooms to create one condominium and 1.1 rental units to create one condominium.

and small apartments. Exhibit III-3 depicts what happened over a ten year period to produce 4,500 condominium units and what happened during the same period to that number of rental accommodations. In summary, 877 new condominium units were created where no housing units previously existed, 1,780 luxury rentals were converted to an equal number of condominiums, 1,913 moderately priced rental apartments became 1,677 condo units and 722 lodging house rooms telescoped down to 247 condo units. Exhibits III-4 and III-5 illustrate more specifically what type of space has been developed/converted into residential condominiums.

#### Phase I, 1969-1973, The Pioneering Phase

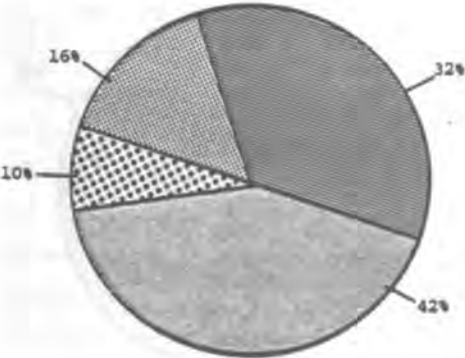
The initial activity--from 1969 to 1973--was limited to the conversion of older quality rentals within a narrow geographic band of the Back Bay and Beacon Hill. For the most part, the properties would be classified as luxury or at the very least they were well maintained with a fairly stable tenantry. The BRA survey of these early conversions showed that, at the time of conversion, forty (40%) percent of the tenants had been living in their units for three or more years. Nearly eighty (80%) percent of the properties converted had been in long-term ownership. The survey also indicated that one-third of the long term residents purchased their units. One common denominator in these early conversions was the size of the units--sixty (60%) percent contained more than 1,200 square feet of living space, and nearly half had six or more rooms.

In 1973, activity moved beyond Back Bay and Beacon Hill. Condominiums were developed in non-residential properties in the North End/Waterfront, while a 1960's garden complex in West Roxbury and a post World War II Veterans housing project near Forest Hills were also converted. However, neither the

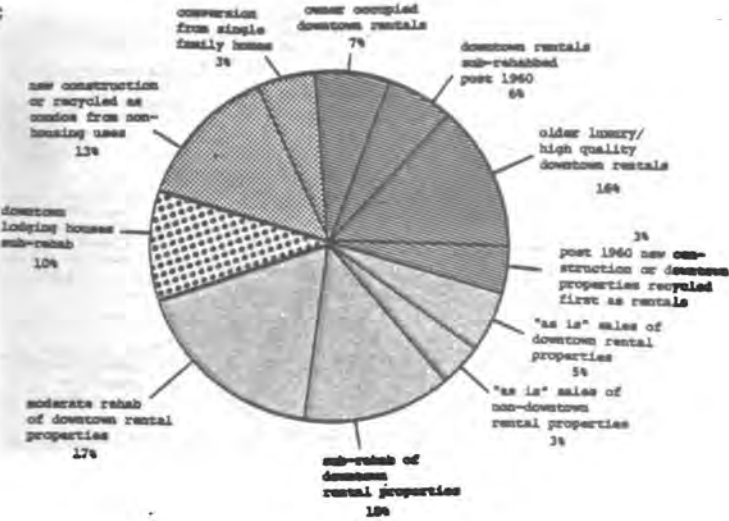


**Exhibit III-4**  
**PREVIOUS USE OF STOCK DEVELOPED AS CONDOMINIUMS (by structure)**

**General**



**Specific**

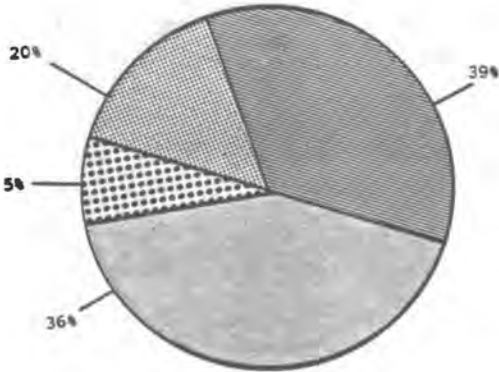


**Key**

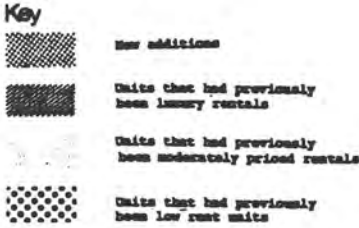
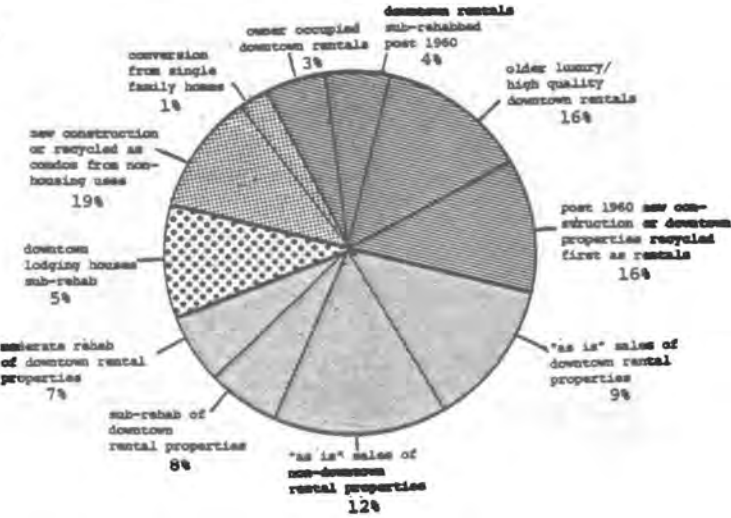
- New additions
- Units that had previously been luxury rentals
- Units that had previously been moderately priced rentals
- Units that had previously been low rent units

**Exhibit III-5**  
PREVIOUS USE OF STOCK DEVELOPED AS CONDOMINIUMS (by unit)

General



Specific



latter, nor a small group of renovated townhouses in the South End nor an older, moderately-priced building along the Fenway (all done at that time), proved very marketable for a while after conversion. It should be noted that the South End market is now firmly established, six years after the first conversions, and although the Fenway market hasn't gained in strength, resales on that first building are strong.

Rent levels are unavailable for many of these early conversions since they were already classified as condominiums at the time of mandatory rent registration in 1972. However, a composite sketch can be drawn from available data which gives an indication of the relationship of previous rent to sales price and sales price per square foot. On average, units sold for about eight-to-ten times the annual rent. Purchase price per square foot ranged between \$30 and \$35.

#### Phase II, 1974-1977, Consolidation

The number of conversions dropped off sharply over the next three years (1974-1977), but the geographic expansion continued, particularly on the north slope of Beacon Hill and in the North End/Waterfront area. In addition, the type of stock being converted was changing. It was during this period that the first lodging houses were converted and new housing was created through recycling of hotels, warehouses and schools. More modestly priced downtown rental units were being converted, some with prior rehabilitation, others in "as is" condition and the number of resident landlords (owner occupants) converting their buildings increased. The first newly constructed condominiums in the City were built in Jamaica Plain, and the first of a relatively small number of cases of landlord harassment and fraud in the eviction of tenants were reported, along with consumer (purchaser) dissatisfaction and bank foreclosures.

In the first two years of conversion activity eighty (80%) percent of the converters had owned their properties for more than three years. In 1972-1973 that number had dropped to fifty (50%) percent, and through 1977 it dropped again to twenty-five (25%) percent, marking the increase in activity of the professional converter (Exhibit III-6). Correspondingly, the tenure of tenants in buildings being converted changed from forty (40%) percent having lived there three or more years to twenty (20%) percent. In other words, more transient housing accommodations were being converted.

The percent of tenants purchasing their units upon conversion actually increased during this period to thirty-six (36%) percent. This may reflect the growing acceptance of condominiums as well as the wider range of moderately-priced offerings. Although the common perception was that condominium opportunities were limited to the upper income, approximately half of the units sold between 1973 and 1976 cost \$40,000 or less. By national and regional standards, these units would not be considered high cost. In fact, Boston's condominium prices during this period were very competitive with the Brookline and Cambridge markets. However, these prices were higher than most Boston one-to-four family homes and the size of the units was considerably smaller (less than thirty (30%) percent contained more than 1,200 square feet), limiting their marketability to small households. Exhibits III-7 and III-8 illustrate the price distribution of Boston's condominiums and how prices have changed over time.

Because of the diversity of the stock being converted, average costs and ratios are of little value. Further, the presence of rent controls and the introduction in 1976 of vacancy decontrol distort the relationship of prior rent to sales price. However, prototypical "as is" sales during this period

Exhibit III-6

OWNERSHIP PATTERNS OF BUILDINGS BEING CONVERTED

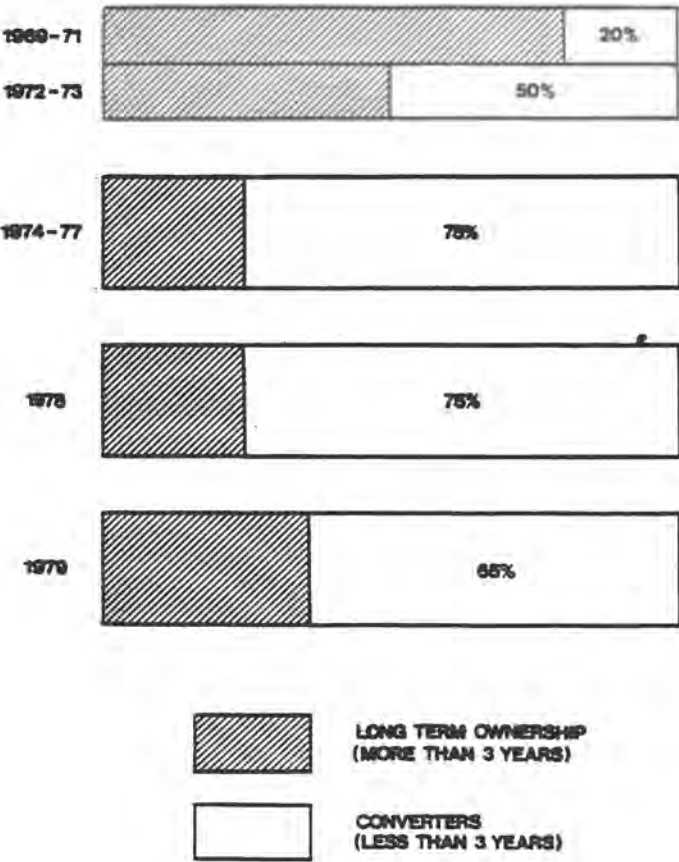




Exhibit III-7

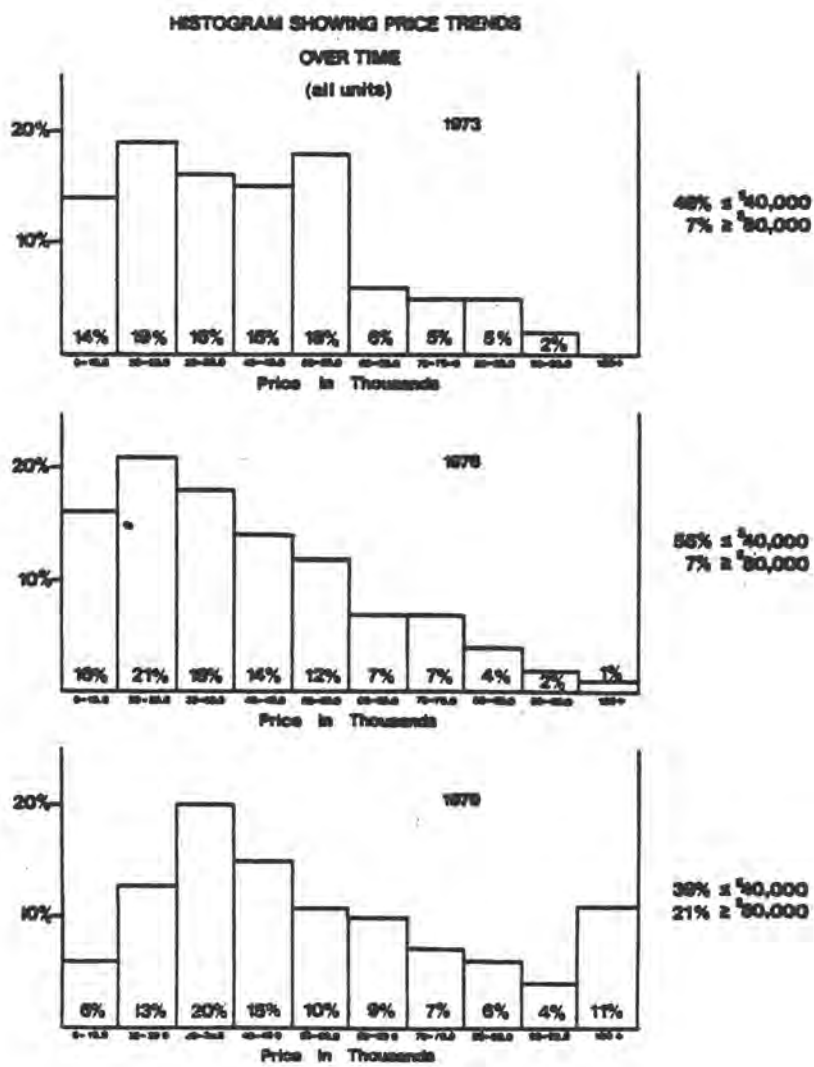


Exhibit III-8  
 DISTRIBUTION OF BOSTON CONDOMINIUMS BY PRICE RANGE  
 (Percenta may not total 100 due to rounding)

Price Range	1973	1975			1976			1977			1978			1979			First Quarter 1980		
	City Total	Downtown	Non-Downtown	Total	Downtown	Non-Downtown	Total	Downtown	Non-Downtown	Total	Downtown	Non-Downtown	Total	Downtown	Non-Downtown	Total	Downtown	Non-Downtown	Total
\$0-19,999	14%	12%	85%	14%	13%	71%	16%	9%	64%	17%	9%	6%	8%	8%	14%	6%	4%	4%	4%
20-29,999	19	26	15	25	21	17	21	17	31	19	15	35	19	12	25	13	14	20	16
30-39,999	16	22	0	21	18	0	18	21	0	18	17	25	19	18	33	20	18	52	25
40-49,999	15	16	0	15	15	0	14	18	0	14	18	20	19	15	10	15	17	17	17
50-59,999	18	13	0	12	12	0	12	13	0	11	15	0	12	11	1	10	8	5	7
60-69,999	6	7	0	7	7	0	7	8	2	7	9	1	8	10	0	9	8	0	6
70-79,999	5	2	0	2	7	17	8	6	2	5	5	3	5	8	0	7	6	0	5
80-89,999	5	2	0	2	4	33	5	4	0	3	6	6	6	6	6	6	5	0	4
90-99,999	2	1	0	1	2	0	2	2	0	2	1	2	1	3	10	4	5	0	4
100,000+	0	1	0	1	1	0	1	2	2	2	5	2	4	13	3	11	15	2	12

had similar rent to purchase price ratios as in the proceeding years and average costs per square feet were not much higher. Original sales prices of new luxury units along the waterfront ran \$55-60 per square foot.

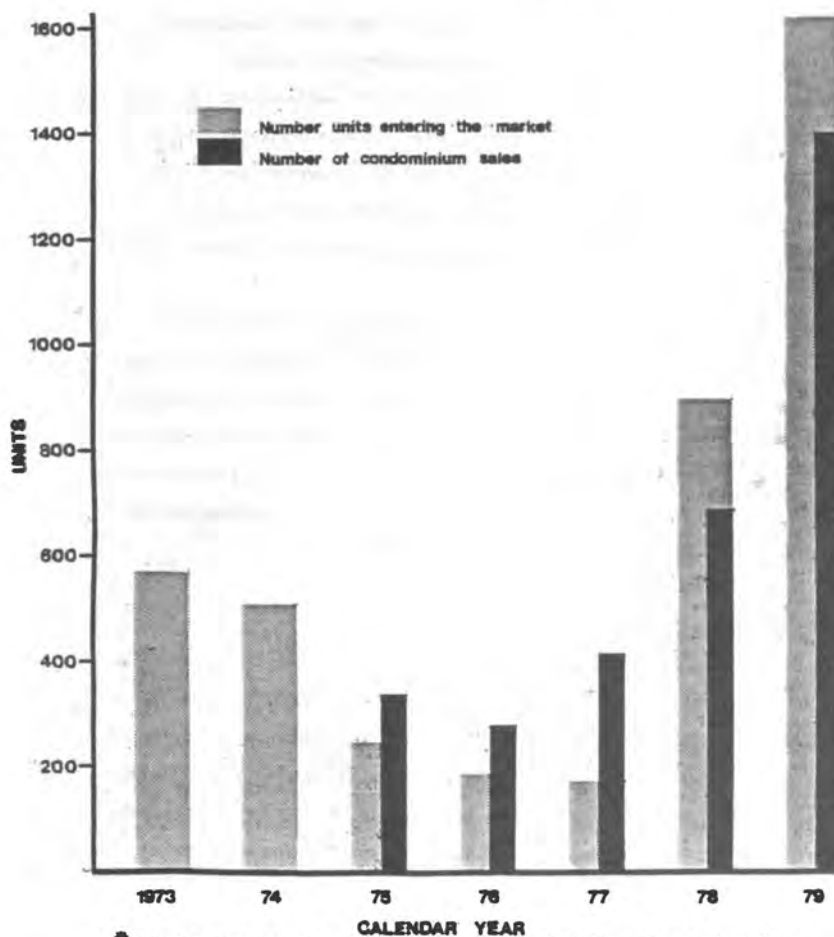
Nearly twice as many condominiums were sold in 1975-1976-1977 as were brought on to the market during that period (Exhibit III-9). This reflects the fact that the 1,000 units which glutted the market in 1973 and 1974 were beginning to be absorbed. The moderately-priced units in the best non-downtown locations sold well, with a disproportionate number of existing tenants buying their units. The largest non-downtown development, rather isolated from shopping and services, never moved well and still houses a number of rental tenants in the developer-held units. Likewise, two North End properties converted during this period were still operating entirely as rentals as of the end of 1979. The developer of new luxury units in Jamaica Plain encountered tremendous difficulties in marketing those units in 1976, and the project was ultimately foreclosed by the construction lender. However, the market has since risen to meet the prices and the location is no longer a liability. The last of the first phase units in the Jamaica Plain development was sold this year and most of the units presently under construction as Phase II have been pre-sold.

#### Phase III, 1978, Resurgence

The number of conversions as well as the number of newly created units soared in 1978. Fifty (50%) percent more units were converted in 1978 than in the three preceding years. In many respects, the activity was similar to what took place in 1974-1977, but at a greatly accelerated pace. The diversity in location and type of building being converted paralleled the earlier period, even remaining in roughly the same proportion. Again, only twenty-five (25%)

## Exhibit III-9

NUMBER OF CONDOMINIUM UNITS SOLD PER YEAR\*  
COMPARED TO NUMBER ENTERING THE MARKET



\*Excludes sales where owner/developer converted buildings to condominiums and assigned the individual units to himself.

percent of the converters and twenty-two (22%) percent of the tenants had owned/lived in the building for more than three years. The non-downtown units tended to be well-located and well-maintained properties--whether new or old--in the most desirable sub-markets: South Boston on the water; Brighton around the reservoir; West Roxbury on the Newton town line. The Back Bay activity was expanding outward to Gloucester and Hereford Streets.

Exhibit III-10 presents typical sales prices for various unit types and locations. Where available, pre-conversion rent is also presented for comparison. By 1978, however, many units destined for conversion had already come under vacancy decontrol during the preceeding two years as a result of normal turnover. More than forty (40%) percent of the units surveyed for 1978 had been decontrolled.

Perhaps the most significant difference between the 1978 conversion activity and that of earlier years was that fewer existing tenants purchased their units. Only fifteen (15%) percent of tenants in the downtown neighborhoods bought condominiums, reflecting the fact that lower-priced rentals were being rehabilitated and sold as higher priced condominiums. In the non-downtown sample, thirty (30%) percent of the existing residents purchased condominiums, which was in keeping with previous years' "as is" sales.

#### 1979, Resurgence Continued

Last year's conversion activity differs from that of earlier years in a number of important respects. First, the number of buildings converted in neighborhoods other than Back Bay and Beacon Hill increased both as a proportion of the total activity and in absolute numbers. Nearly seventy buildings in other neighborhoods were converted, doubling all previous activity. These conversions represented almost half of the total activity (based on number of

EXHIBIT III-10  
 PROTOTYPICAL SALES PRICES, 1978

<u>Type of Unit</u>	<u>Per Square Foot Cost</u>	<u>Sales Price Previous Rent</u>
West Roxbury garden apartments, post 1960	\$40	10:1
Brighton pre-war apartment building	\$35 (up a third over similar 1977 sale)	
South Boston post-war building built originally for returning veterans	\$35	
Back Bay/Beacon Hill "as is" units	\$40-50	10:1
Back Bay/Beacon Hill substantially rehabbed units	\$65-70	16:1
South End substantially rehabbed units	\$50	

buildings converted). The most dramatic increase was in the South End and St. Botolph neighborhoods which had only four condominium developments (three of them conversions from rentals) on January 1, 1979, and by the year's end had thirty such developments with at least twenty more in progress. The fact that condominium acceptance had become established in the non-downtown neighborhoods is reflected in the sales prices. Units in the second and third buildings converted in most neighborhoods are bringing prices of about a third more than the first conversions of a year earlier. These increases do not reflect increased rehab costs since most are "as is" sales.

Second, the number of active lodging house conversions in the downtown jumped from no more than three or four in any previous year to thirty in 1979, exposing this as a particularly vulnerable stock type. In addition, an increasing number of Back Bay/Beacon Hill rental properties in fair to poor condition were and are presently being substantially rehabilitated for sale as luxury condominium units. The resulting sales prices, which reflect the high cost of construction and the strong market demand, bear no relationship to the unit's value as a rental. The corresponding increase in the price of "as is" and moderate rehab sales reflects the strong market demand rather than an increased cost of preparing the units for sale. Resale prices and prices in "as is" units increased by a third over the previous year, sometimes more. (Exhibit III-11.) In part, the increased demand has come from investors and/or speculators and in part, it results from the lack of good available rental opportunities in the sought after locations. Demand also stems from uncertainty about the future--inflation, cost and availability of mortgage credit and government regulations. The most significant increase in demand, however, has come from people who genuinely want to live in the City and who believe in the logic of homeownership.

EXHIBIT III-11  
 PROTOTYPICAL SALES PRICES, 1979

<u>Type of Unit</u>	<u>Per Square Foot Cost</u>	<u>Sales Price Previous Rent</u>
West Roxbury garden apartment, post 1960	\$50	11:1
South Boston, post war apartment building	\$42	
Back Bay/Beacon Hill "as is" units	\$50	10:1
Back Bay/Beacon Hill substantially rehabbed units	\$85-90	17:1
South End substantially rehabbed units	\$65-70	
Brighton substantially rehabbed units	\$45-50	11:1



Another important change in the past year's and current activity is that more people are getting involved in the conversion activity. The percent of the total activity (though not the absolute number) undertaken by those individuals and firms who had emerged over previous years as the major local converters is declining. Other long-term owners have begun to recognize the appeal of getting out of the rental business while, at the same time, realizing a substantial capital gain through conversion. Recent purchasers, many without a history of real estate background, are similarly enticed to convert by the potential for a quick profit.

Tenant opposition to proposed conversions increased dramatically in 1979. The Boston Rent Control Administration's records indicate that at least as far back as three years ago tenants had begun protesting evictions for the purpose of conversion. However, it was not until 1979 that evictions came to the attention of the media.

Tenants' concern over their housing situation manifested itself in a number of ways. Some sought relocation benefits, some negotiated more favorable purchase prices or "life estate" status in their existing units, some sought developer or public agency assistance in relocating; and in at least one case, the fear of possible displacement prompted a group of tenants to purchase their own building.

Nineteen seventy-nine also marked the first time that city and federal programs had been actively investigated by community groups as well as developers for possible use in expanding homeownership opportunities. Among the tools considered, but not yet used, are the Section 8 cooperative housing program (on the part of community groups) and the Section 223(f) mortgage refinancing program (on the part of developers). Among those already used are the State Chapter 121A tax benefit--used to encourage residents of Jamaica Towers in

Jamaica Plain to purchase their building as a cooperative--and the condominiumizing of a triple decker, also in Jamaica Plain, under a Community Development funded rehabilitation program.

Toward the end of the year, as interest rates began to inch upward, several seasoned real estate brokers felt that sales were waning. One pointed to the "apartments for rent" section of the Boston Sunday Globe documenting the number of unsold "luxury condos" then being offered as rentals as an indication of leveling off of demand. Such reports were premature, however, as an examination of actual sales transactions recorded in Banker and Tradesman confirmed. In fact, sales during the fourth quarter were stronger than ever. What the abundance of unsold units reflected was a temporary oversaturation caused by sales (averaging over 150 closings per month during the last three months of the year) not keeping pace with the number of units brought onto the market following the summer's rehab activity, coupled with a mismatch between the price or type of units being offered and buyers' demands.

Uncertainty regarding interest rates and inflation in general did not really make a significant impact on the market until the early part of 1980, and even then the slowdown was short-lived.

#### 1980, Current Activity

The number of buildings being overtly converted, as well as the number of units actually sold, did drop slightly during the first half of 1980. While a seasonal drop in mid-winter sales is not uncommon, the lack of activity during the spring months was a direct response to the volatility of the mortgage market. Sales were off by a third during the first half of 1980. In fact, activity in March and April dropped to one half the October-December level. Conversion activity based on number of master deeds filed between February and

June was similarly down from the second half of 1979 (See Exhibit III-12). Further, the high cost of conventional mortgage funds caused developers to seek out new financing sources and techniques for the units they could sell. Some developers who had lined up permanent financing pending credit approval of their buyers found it necessary to subsidize the interest rate on the mortgage by several percentage points for a period of time. For example, if the mortgage interest rate charged by the bank was sixteen (16%) percent, the seller might agree to pay the difference between twelve and one-half (12½%) and sixteen (16%) percent for one or two years. The assumption, of course, is that rates will come down during that period and the buyer can refinance or renegotiate the terms of his/her loan.

The turmoil in the mortgage market coincided with the City's enacting an ordinance at the end of 1979 which required a property owner to give existing tenants one year's notice of intent to convert before he/she can begin eviction proceedings. The combination and timing of these two events will undoubtedly result in a reduction in the number of buildings converted in 1980, but the conversion of larger buildings will keep the total unit count up. There is no doubt that the social, economic and demographic forces that create demand are here at least through the 1980's. There is also no doubt that explicit Federal tax laws play an important role in encouraging the conversion movement, while at the same time contributing to the difficulties of the private rental housing industry. For these reasons it must be assumed that pressure will continue to mount for both ownership opportunities in the City and as an escape hatch for owners of existing rental housing. Recognizing this, the BRA is continually monitoring market changes to determine: (1) where and on what types of stock the pressures for conversion are likely to be most acute; (2) what is primarily responsible for this pressure distinguishing between areas that are vulnerable

## EXHIBIT III-12

NUMBER OF MASTER DEEDS FILED BY MONTH  
(Number of Units Represented, Where Available)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
January	1 ( 5)	1 ( 13)	8 (117)	26 (136)
February	0	4 ( 28)	6 ( 29)	5 (394)*
March	1 (10)	4 ( 23)	7 ( 40)	3
April	1 ( 5)	1 ( 5)	10 ( 78)	7
May	0	3 ( 21)	10 (102)	5
June	0	5 (173)	11 (109)	7
July	6 (70)	9 (144)	13 ( 73)	5
August	2 (11)	11 (197)	29 (330)	
September	0	6 ( 59)	12 (172)	
October	6 (29)	5 ( 44)	17 (261)	
November	2 (18)	6 (124)	17 (188)	
December	3 (22)	4 ( 26)	18 (146)	

\* 353 units comprise one conversion.

primarily because of increasing demand for ownership opportunities, those which are vulnerable primarily because the owner wants out, and those which are a combination of both; (3) who will be affected and how; and (4) what is the appropriate public response. The issues are all explored more fully in the following chapters.

Current activity is already ushering in some important new directions as well as reinforcing earlier trends. As prices on renovated Back Bay/Beacon Hill space climb towards \$90-\$100 per square foot (they have recently begun to break that mark with regularity), households who would have purchased there are looking to neighboring areas where similar quality work is available at two-thirds (South End) or even one-half (Allston) that price. A recent BRA survey of South End condo buyers revealed that fifteen (15%) percent had previously lived in the Back Bay or Beacon Hill. In contrast to the earlier citywide experience where sixty (60%) percent previously lived in the same neighborhood if not the same unit, less than a third of the South End condo owners had.

One-to-four unit buildings are now being marketed for sale as condos in Charlestown, East Boston, and Jamaica Plain. The three major developments presently underway in Jamaica Plain are new construction and adaptive reuse, but the strength of the market surrounding these projects is attested to by the offering of a condo in a conversion from a two-family residence at a price higher than the entire house would have brought a year earlier. More large buildings (16 units plus) are being actively converted in Dorchester, South Boston, Roslindale, and Hyde Park, and still others are requesting financial assistance from HUD in the form of refinancing or one-shot operating subsidies to correct problems caused by deferred maintenance, both of which could be linked to future efforts to convert. In addition, many of the new apartments

being built or substantially rehabilitated today are being designed with a view towards future conversion, generally as soon as the benefits of accelerated depreciation have been maximized.

The conversion now underway at Town Estates in Brighton originally aroused widespread citizen concern,<sup>4</sup> not only over the manner in which it was undertaken and the size of the project (at 353 units it was nearly twice as large as any previously recorded condominium), but by the presence of an outside middleman, or converter, in the transaction. To many this was a harbinger that the Chicago techniques had arrived in Boston--that the way of doing business here was about to change. The subsequent announcement that a 250 unit rental development in Concord had been sold, brokered by a national real estate firm, to a Chicago converter furthered their suspicions. Even the most cursory review of the real estate pages documents this new marketing approach. Large brokerage firms are actively promoting the sale of rental properties solely on the basis of their conversion potential. Out-of-town investors are being solicited for the quick metamorphosis of decent rental housing into condominiums.

The entry into the marketplace of "outsiders" means that Boston may soon experience the type of large scale, "as-is" conversion of luxury properties that have been commonplace elsewhere. In addition, however, there continues to be a genuine consumer generated demand for the type of condominium offering that has come to typify Boston's unique market. Increased sales activity during the past two months reiterates the strong demand for small scale, rehabilitated units in close-in, architecturally appealing neighborhoods. It is appropriate to digress here to explain a little about the rather provincial nature of Boston's condominium market.

#### IV. CHARACTERISTICS OF BOSTON CONDOMINIUMS

While the social, political, economic and demographic forces which are at the root of the rental housing/condominium conversion dilemma are affecting communities throughout the country, there are some aspects of the Boston market that render it unique. The types of buildings converted, the actors involved and the purchasers are all fundamentally different in Boston.

There are indications that Boston is only now becoming more like other parts of the country despite a ten year conversion rate that ranks it sixth among high activity Standard Metropolitan Statistical Areas (SMSA's) nationally. It is important to understand the similarities and differences between Boston and other cities. HUD's recent study The Conversion of Rental Housing to Condominiums and Cooperatives provides a useful frame of reference for doing this.

##### Physical Characteristics

The types of buildings converted to date in Boston differ in several respects from those in most other cities. First, they are smaller. The median number of units per condominium in Boston is six. In fact, nearly half of the developments contain five or fewer units and seventy-five (75%) percent contain fewer than ten units. The low number of units per structure is a reflection of the small scale of the building converted here. Over three-quarters of the building converted to, or developed into condominiums in Boston are masonry structures of six or fewer stories, most having been built originally as single-family residences. Less than one (1%) percent of the converted buildings have ten or more stories (HUD's definition of high-rise). By comparison, the HUD study indicated that in central cities nationally, over half (55%) of the converted buildings are high-rise. HUD further found that such buildings, three-quarters of them built within the past twenty years,

were generally in good condition at the time of conversion and sold in "as is" condition or with only minor cosmetic repairs. Although the early conversion activity in Boston involved the "as is" values of well maintained properties, the recent activity (1978 to present) has more typically involved moderate to substantial amounts of rehabilitation prior to sale.

It is important to draw attention here to the distinction between Boston's downtown and non-downtown developments in terms of size and type of buildings converted. It is Boston's downtown activity that is of an unusually small scale. Of rental properties converted to condominiums, only seven (7%) percent in the downtown contained over twenty-five units as opposed to over fifty (50%) percent of the non-downtown conversions, and it is the recent downtown conversions that have typically involved extensive rehabilitation. In the past two years, these conversions have been of well-located but poorly maintained buildings which had high turnover and low rent by Back Bay/Beacon Hill -- though not citywide--standards. The non-downtown conversions, on the other hand, have represented some of the best multi-family rental units in their respective areas. Generally, they have been of the upper rent range units (judged again by neighborhood standards). Even in those cases where controls artificially depressed the actual rents, the units were of a quality that would qualify them as "better" units. The buildings were also of a larger scale than those downtown. This pattern more closely parallels the activity in Brookline, Cambridge, and Newton, as well as the national trend. What is significantly different is the fact that so few newer (post 1960) units have been converted to date.

Referring back to Exhibit III-4, the reader can see that over one-half of the buildings converted had previously been moderately priced rental housing. All but eight (8%) percent of these required moderate to substantial rehabili-



tation prior to sale which is reflected in the higher prices of the resulting condominium units. (Some mediocre stock has been converted and sold with only cosmetic fix-up, if that, and may require substantial mechanical work at a future date.) For the most part the rehabilitation has been concentrated on four- and five-story brick properties in close-in neighborhoods which were originally built as townhouses, but got carved up over the years into small rental apartments. In many respects the Back Bay and, to a lesser extent Beacon Hill, of the 1960's and 70's was itself an anomaly. Close-in enclaves of architecturally desirable properties, they retained their image as prestige neighborhoods, housing a fairly young, mobile, affluent, educated white population. However, the amount of interior (building) deterioration, institutional encroachment, moderate rent levels, low percentage of owner occupancy and lack of rehab activity on the part of owners underscores a fundamental difference between these and similarly located neighborhoods in other downtowns. The recreated condominium units generally run one per floor. With only four to six households per building, the management responsibilities are most often handled by the condo owners themselves. The market for these human scale, in-town residences by resident owners continues so strong that such developments are often sold out prior to completion.

Based on their national study, HUD distinguished between the two types of central city neighborhoods most frequently experiencing conversions. As Exhibit IV-1 indicates, Back Bay/Beacon Hill combines characteristics of both types of neighborhoods but doesn't clearly fall into either category.

Boston's deviation from the national norm can be viewed another way. Only a very small proportion of luxury rental housing has been converted to date. Although many of the early conversions were of this type (e.g., 180 Beacon Street, 330 Beacon Street, and Prince Spaghetti Factory) such activity has

Exhibit IV-1  
 TYPES OF CONVERSION NEIGHBORHOODS AND CHARACTERISTICS  
 ASSOCIATED WITH EACH  
 (as identified in HUD Study)

<u>Type</u>	<u>Description</u>	<u>Preconversion Pop. Characteristics</u>	<u>Preconversion Building Condition</u>	<u>Level of Repairs</u>	<u>Preconversion Neighborhood Characteristics</u>
<u>Non- Revitalizing</u>	Economically viable due to continued private reinvestment	Middle or upper middle income whites employed in white collar professional or managerial occupations.	Most are in good condition	Minor cosmetic changes or sold "as is"	Median incomes, rents, housing values well above city norm.
<u>Revitalizing</u>	Have experienced decline but are beginning to revitalize due to increased public/private reinvestment	Similar to non-revitalizing neighborhoods at time of conversion activity. However, most had experienced an influx of middle income white homeowners replacing low and moderate income minority renters preceeding condo activity.	Most are in good condition but a significant number are substandard	Most undergo minor repair but a significant number undergo major repairs prior to sale.	Experienced recent changes in socio-economic profile of residents as well as building conditions. Private reinvestment & targeting of public funds occurs at least 2-5 years before initial conversion activity.

been decreasing rather than increasing. The City built 12,500 units of new market rate rental housing during the past twenty years, sixty-five (65%) percent of it in the strong market areas of the downtown (Prudential Center, Charles River Park, Harbor Towers, etc.). If the condo movement here parallels that in Chicago, Washington, D.C. and other cities, these developments will become likely conversion targets. Since these properties contain between 700 and 1,400 units, the conversion of any one would more than double the activity of even the peak years.

Boston has been in the forefront of cities nationally in the area of adaptive reuse and recycling with over seventeen (17%) percent of the City's condominium inventory located in buildings which were formerly used for non-housing purposes.

#### Ownership Patterns

Eighty-five (85%) percent of Boston's residential condominiums are occupied by their owner or his/her immediate family. This holds true in all neighborhoods. However, there are three or four buildings for which no sales have been recorded, even though they have existed as condominiums for several years. These buildings are still operated by the original owner/converter as rentals.

Of the remaining fifteen (15%) percent, about two-thirds are owned by individuals and one-third are held by the developer who converted. While there has not been a marked increase over time in developers holding onto unsold units, there has been an increase recently in individuals purchasing units for investment purposes. With the exception of investors purchasing some very expensive units along the waterfront, most of the investment activity involves moderately priced units which, in addition to anticipated appreciation and tax benefits, generate a positive cash flow when rented at prevailing market rents. There is also a second category of investor owner. These are

condo owners who did occupy their units at one time but have since moved. Rather than selling, they have kept the unit and rent it out. Here too, the income from the unit generally generates a positive cash flow.

By comparison, the recent HUD study of trends in twelve "high conversion activity" SMSA's found thirty-seven (37%) percent of all condominiums were still rented out. Of these, nineteen (19%) were owned by investor owners, while eighteen (18%) percent were owned by the previous landlord or developer.

Nationally, according to the HUD study, twenty-two (22%) percent of the renters in buildings converted to condominium ownership purchased their units upon conversion. This is roughly the same as the local experience when averaged over the last ten years. However, there has been significant variation among Boston conversions because of the heterogeneity of the building being converted (Exhibit IV-11).

#### Financing Patterns

Nearly three-quarters of all condo purchases were financed through a conventional institutional lender. In the early years, the savings and loans dominated the market, but since 1976 the mutual savings banks have been the most active. (Exhibit IV-3.) The rate of foreclosure is not inconsistent with the areawide rate for conventional mortgages. However, there have been a handful of cases that have had a history of financial difficulty. In one such case, a number of individual condo owners defaulted on their mortgages after being assessed substantial amounts of money to repair faulty mechanical systems. In all other cases the problem arose when a developer/convertor either could not sell the individual units or obtained mortgages personally, or through straws, on individual units and then defaulted.

EXHIBIT IV - 2  
PROPORTION OF EXISTING TENANTS  
PURCHASING CONVERTED UNITS

<u>Location/ Study</u>	<u>% of Tenant Purchases</u>
HUD Condominium/Cooperative Study, 1975	15-25%
Palo Alto, California Condominium Conversion Study, 1974	18%
District of Columbia Housing Market Analysis, 1976	24%
Metropolitan Washington (D.C.) Condominium Housing: A New Homeownership Alternative, 1976	17.7%
Evanston, Illinois Condominium Conversions in the City of Evanston, 1978	20%
Cambridge, Massachusetts Condominium Conversions in Cambridge, 1978	20%
Brookline, Massachusetts Harbridge House Study, 1979	22%
HUD Condominium/Cooperative Conversion Study, 1980	22%
Boston (ten year average)	25%
Phase I (1969-1973)	32%
Phase II	36%
Phase III	25%
Phase IV	15-20%

EXHIBIT IV-3  
SOURCE OF FINANCING\*

<u>Year</u>	<u>No. of Sales</u>	<u>Percent with No Mortgage or Mortgagees Unknown</u>	<u>Percent Bank Financed</u>	<u>Percent Seller Mortgages</u>	<u>Percent Other (a)</u>
1979	1,350	12%	70	12	6
1978	675	23	72	3	2
1977	407	25	71	2	2
1976	272	18	76	3	3
1975	336	20	73	5	2

\* According to information published in Banker and Tradesman.

(a) Credit unions, life insurance companies, individuals, etc.

Percents may not total due to rounding.

BANK LENDING BY TYPE OF INSTITUTION \*\*

<u>Year</u>	<u>Savings &amp; Loans</u>	<u>Commercial Banks</u>	<u>Mutual Savings Banks</u>	<u>Cooperatives</u>
1979	13.5%	7.5%	70.0%	9.0%
1978	15.1	3.9	76.4	4.6
1977	33.3	9.3	44.4	13.0
1976	18.4	4.8	64.3	12.6
1975	51.4	6.0	33.1	9.7

\*\* Based on number of mortgages.

Typically, the Boston based thrift institutions have not been active sellers in the national secondary market so the loans they have written remain in their portfolios. Because of the small size of most condo developments here, it is virtually unheard of for a project to be "pre-approved" by one of the secondary mortgage market agencies. The Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) indicated to HUD researchers that there is an increasing number of conversion projects participating in each agency's programs. Further, the HUD study reports that various market experts interviewed by them have suggested that in today's market a large number of conversion projects are developed to specifically meet FHLMC/ FNMA underwriting standards, and that a substantial number of loans within their mortgage limits (presently \$93,750 for a 90% mortgage) are purchased by one or the other organization.

#### Developer Characteristics

Beginning around 1976, a handful of local developers, all of whom had prior experience in Boston real estate, began to dominate the market. Some came from the rehab business, some from the ownership and management of investment property and some from the brokerage business. Typically, they confined their activity to one, or possibly two, neighborhoods and most concentrated on particular types of conversions. Most lived or operated businesses in the neighborhoods in which they rehabbed, converted and sold condos. These same actors continue to play a dominant role in the market today, even as new forces enter it. However, the role of these individuals is no longer exclusively that of developer. Sometimes they become marketing agents for an individual

owner or for outside interests. Sometimes they turn over buildings they have purchased to others for conversion. The behavior of these actors and the entry of new ones should be carefully scrutinized as indicators of shifts in the market.



#### V. EFFECTS OF ACTIVITY TO DATE

The effects of condominium conversion have been the subject of much debate. Those arguing in their favor claim that conversions open up new housing opportunities, increase neighborhood stability, provide more tax revenue and result in substantial rehabilitation of the existing stock. Those opposed to conversions point to the hardship suffered by those who are involuntarily displaced, the resulting decrease in rental housing and the loss of choice that results, and the changing profile of neighborhoods as a new social and economic class dominate the population.

The BRA has attempted to sort through these arguments to determine which, in fact, hold true for Boston. Attention was focused primarily on conversions rather than new development since that's where the most of the concern is centered. The remainder of this chapter presents the findings.

#### Benefits:

##### New Housing Opportunities

In many parts of the country condominium conversions do expand ownership opportunities for those priced out of the detached, single-family housing market. This is the case in Brookline, for example, where the average price of single-family homes sold in 1979 was \$104,000 (Harbridge House Study, 1979), while the average price of a condominium in a converted rental property was only \$40,000. In Boston, it is once again necessary to distinguish between the downtown market and the non-downtown markets since converted condos in the downtown tend to be priced higher than one, two and three-family homes in most other neighborhoods. However, comparing (converted) condominiums in West Roxbury with the surrounding single-family stock, or Brighton condos with neighboring Brighton homes, the purchase price of a condominium appears more

competitive. In any event, in these areas availability is more the issue than affordability since the detached stock turns over very slowly.

For those wanting to remain in the central city--the downtown neighborhoods--and enjoy the financial advantages of homeownership, there are few comparable alternatives to the price of a condominium.

#### Neighborhood Stability

Boston's rental housing stock has an annual turnover rate of approximately thirty (30%) percent. This high overall rate reflects an even higher transiency of much of the renter population that has typically been attracted to Boston, that is, young people who are here to complete their education or start out in the labor force, balanced by a more stable "empty nester" rental population. The transient profile holds particularly true in Back Bay, Beacon Hill, and the Fenway where between fifty-six (56%) and sixty (60%) percent of the population has lived in Boston fewer than five years (Consensus Survey, 1979). Boston's homeowners, on the other hand, traditionally have had a very low turnover rate of four (4%) to five (5%) percent annually.

Condominium owners, it was found, behave very much like other home-owners in this respect. Their overall annual turnover rate is six (6%) percent with no significant variation among neighborhoods. This means that even if renters in the investor-owned units move every three years, as is the renter norm, the overall rate of turnover in the condominium universe would be under ten (10%) percent, down from thirty (30%) percent as a rental property. Of course, the actual increase in neighborhood stability would depend on the type of stock being converted, the characteristics of the previous tenants, and the type of units being created. In those buildings which already house a stable tenant--

often life-long renters or older people who have sold larger homes--the argument of increased stability is not justified. However, the great majority of Boston conversions to date have resulted in the replacement of a transient population with a more stable one. Often the purchasers previously rented in the neighborhood but, as renters, moved frequently from apartment to apartment.

#### Expanding Tax Base

The most direct economic benefit resulting from condominium conversion and development comes in the form of increased tax revenue and creation of jobs in the construction and home remodeling industries. The City has gained substantially in terms of taxes collected as a result of condominium conversion and development. The differential in the "before and after" tax yield increases most dramatically when the condo activity involves substantial rehabilitation of deteriorated housing and the creation of new units through the recycling of non-housing, often tax exempt, uses as was the case in 1978. Exhibits V-1 and V-2 document the change in total assessed valuation of condominium properties by comparing assessments in the year prior to conversion with assessments following conversion. Exhibit V-1 includes all condominium development and shows an overall increase of nearly sixty (60%) percent. Exhibit V-2 documents the change in only those condos converted from rental housing, an increase of over forty (40%) percent. The actual increase may be greater than these tables indicate, however, since some of the properties, while rentals, were receiving annual tax abatements. While forty (40%) percent is the average increase over a ten-year period, the increase resulting from 1978-1979 activity

EXHIBIT V-1  
GROWTH IN TAX BASE DUE TO  
ALL CONDOMINIUM DEVELOPMENT

<u>Year</u>	<u>Assessed Valuation Prior to Conversion</u>	<u>Assessed Valuation Following Conversion<sup>*</sup></u>	<u>Net Change</u>
1969	\$ 70,000	\$ 72,100	+ 3.0%
1970	245,000	231,800	- 5.4
1971	2,164,000	2,514,800	+16.2
1972	1,165,000	1,336,800	+14.7
1973	3,294,900	4,969,600	+50.8
1974	4,061,900 (4,026,900)	4,563,200	+12.3 (+13.3)
1975	1,182,500	1,798,400	+52.1
1976	1,208,800 (1,118,800)	1,846,900	+52.8 (+65.1)
1977	1,000,000 (902,000)	1,524,400	+52.4 (+69.0)
1978	4,663,200 (4,467,500)	9,502,400	+103.8 (+112.7)
1979 <sup>**</sup>	10,400,000	18,500,000	+77.9%
Total:	\$29,405,300	\$46,860,400	59.4

Figures in parentheses are based on taxable valuation.

\* Based on FY1979 assessments.

\*\* Estimated

## EXHIBIT V-2

GROWTH IN TAX BASE DUE TO  
CONVERSION OF RENTAL UNITS TO CONDOMINIUMS

<u>Year Assessed</u>	<u>Assessed Valuation Prior to Conversion</u>	<u>Assessed Valuation Following Conversion*</u>	<u>Net Change</u>
1969	\$ 70,000	\$ 72,100	+ 3.0%
1970	245,000	231,800	- 5.4
1971	2,164,000	2,514,800	+16.2
1972	1,165,000	1,336,800	+14.17
1973	2,637,000	2,745,800	+ 8.8
1974	4,026,900	4,521,600	+12.3
1975	657,500	789,400	+20.1
1976	819,800	1,082,900	+32.1
1977	984,600	1,402,400	+42.4
1978	4,047,900	6,745,200	+66.6
1979**	9,300,000	15,400,000	+66.6
Total:	\$26,117,700	\$36,842,800	+41.1

\* Based on FY1979 assessments.

\*\* Estimated

is much greater--sixty-seven (67%) percent per year--reflecting the higher sales price of the substantially rehabilitated units. By comparison, the percentage increase of converted buildings in Brookline during the same period was thirty-four (34%) percent. (Herbridge House Study, 1979.) Correspondingly, buildings there experienced a far lower level of rehabilitation prior to sale than in Boston.

The overall valuation of tax paying real estate in Boston during the same period remained relatively stable, increasing by only two and four-tenths (2.4%) percent during this period. It is anticipated that the 1979 conversions, after analysis of their sellout is complete will show assessments increasing by roughly sixty-seven (67%) percent, just as in 1978. Although prices were up in 1979, fewer new units were added so the growth in tax base due to all condominium development may be less than the staggering one hundred and thirteen (113%) percent recorded in 1978.

Condominium resales, during the past two years especially, have reflected substantially higher market values. However, the City's assessing practices are not capturing this increased value. Since 1977 condominiums have been assessed at twenty-three (23%) percent of market value (purchase price) but assessments are generally not increased upon resale to reflect higher values. The result is that most resold units are being assessed well below the twenty-three (23%) percent level. In its recent study, Condominium Conversion in Boston: A Significant Tax Benefit to the City, the Boston Municipal Research Bureau cited two such examples, both involving 1977 resales where the assessments were not adjusted and, as a result, the assessment to value ratios on the particular units are nine (9%) and twelve (12%) percent.

### Job Generation

The amount of rehabilitation performed on rental buildings prior to their sale as condominiums has been increasing each year, and has increased most dramatically in the last year and a half. At present, over one third of the conversion activity involves substantial rehabilitation of the housing stock. Another third involves moderate fix-up, and most of the rest involve some type of cosmetic work. This is in addition to any investment individual condominium buyers may make. It is also in addition to the actual creation of new housing units through recycling and new construction.

The conversion activity in the past eighteen months has included some 500 units substantially rehabilitated. At an average construction cost of \$35,000 per unit, (1,200 square feet @ \$30 per square foot), this represents an investment of \$17.5 million, all of which is private money. Over \$10 million of this investment represents the labor component. Translated into job generation, this amounts to nearly five hundred full-time construction jobs. The jobs generated by the more moderate remodeling and fix-up activity represent an additional investment of \$3 million over the past year and a half or the equivalent of another one hundred full-time, rehab-related jobs.

### Costs:

#### Direct Displacement

The issue of displacement is the most emotional aspect of the condominium controversy. The issue is clouded by the fact displacement is often confused with, or equated with demographic change and natural turnover. In a recent study on the subject,<sup>5</sup> HUD defined displacement as the involuntary movement of people from their dwelling units which move is necessitated by "conditions which affect the dwelling or its immediate surroundings". The definition

states further that these conditions must be "beyond a household's reasonable ability to control or prevent" and "make continued occupancy ... impossible, hazardous or unaffordable". While this is accepted as a reasonable working definition, for purposes of this study some much looser (and technically less accurate) definitions will be used. Potential direct displacement is defined here as the involuntary relocation of a tenant necessitated by the conversion of his/her building to condominium ownership. Indirect displacement is that which occurs when increased demand is put on a stable or shrinking supply, a situation that is not caused by but may be aggravated by condominium conversions. Because of the emotional nature of the subject, arguments are often made either for or against government intervention into the conversion process on the basis of individual experiences rather than on any broader analysis of who is being affected, what their housing needs are and how they could best be met, how this varies from one neighborhood to another, and how it has changed over time. This section analyzes who is being affected by conversions. The reader should understand that this analysis is not adjusted for normal turnover. Thus it overstates the number of potential displacees by including all renters who did not purchase their units upon conversion. As previously noted, the typical Boston renter moves at least every three years and in areas heavily influenced by colleges and universities, the turnover rate is much higher. The purpose of presenting the much broader estimate of potential displacement here is to identify social and economic characteristics of all households whose lives might be affected by the conversion process, whether their reaction to such change is positive, negative, or indifferent, or whether they would have moved at that point in time even had the conversion not occurred.

A series of exhibits is presented to document specific findings for the reader. (The methodology is presented in Appendix B.) Exhibit V-3 summarizes



the age and occupational profile of residents prior to and following conversion. Exhibit V-4 presents data on the age of tenants being affected by conversions and shows how tenants responded, by age group, to the conversion; i.e., how many bought their unit and how many did not buy. Exhibit V-5 identifies what age groups were most likely to purchase based on the data presented in the preceeding exhibit. Table V-6 shows how many of the existing residents had lived in their units for three or more years prior to conversion, and Table V-7 categorizes these "long-term renters" by age.

The data indicate that the extent of displacement per thousand condominium units has remained fairly constant over time. What has changed dramatically is the rate at which conversions occur. In the early part of the decade, it took five years to create a thousand condominium units; by 1979 it took less than a year.

There are important distinctions between the types of properties being converted in the non-downtown neighborhoods and those being converted in the downtown, and correspondingly, there is a distinction between the two in terms of age and tenure of tenants affected. There is a further distinction among the downtown buildings, with lodging house conversions affecting a very different population than the conversions of regular rental apartments. The issue of direct displacement will be discussed separately for these different groups.

#### Lodging Houses.

The displacement problem is perhaps most severe for the City's lodging house population. This type of housing resource was already becoming an endangered species in parts of the Back Bay, Bay Village and the South End due to renovation for higher income occupancy before condominium conversions ever gained momentum. Often poorly maintained, lodging houses had come under

EXHIBIT V-3  
RESIDENT PROFILE  
PRIOR TO CONVERSION/PRESENT

BY AGE

	<u>Downtown</u>		<u>Non-Downtown</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
24 & Under	19%	11%	12%	3%
25-34	42	40	46	25
35-49	18	22	14	24
50-64	9	21	10	23
65 & Over	16	6	18	24

BY OCCUPATION

	<u>Downtown</u>		<u>Non-Downtown</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
Student	16%	9%	13%	3%
Professional	25	36	19	21
White Collar (Professional, Management level)	23	31	20	22
White collar (Clerical, Office Worker)	15	10	22	21
Skilled blue collar	2	2	4	9
Semi- or unskilled blue collar	4	2	4	4
Arts	2	2	1	0
Retired or not in labor force	13	8	17	20

Exhibit V-4  
 EXTRAPOLATION OF TOTAL NUMBER OF POTENTIAL DISPLACED FROM  
 PRIOR RESIDENT/PURCHASER PROFILES  
 (Excluding lodging houses)

	Downtown				Non-Downtown			
	Total Prior Residents	# Who Bought	# Potentially Displaced	Age Group	Total Prior Residents	# Who Bought	# Potentially Displaced	Grand Totals
1969-1973:	Approximately 800 condominium units created through conversion of rental apartments--610 in downtown, 190 in non-downtown neighborhoods. 32% of residents in each area purchased their units.							
	73	18	55	24 & under				
	146	15	131	25-34				
	116	51	65	35-49	net available			net available
	104	37	67	50-64				
	171	62	109	65 & over				
	610	190	415	Totals	190	61	129	544
1974-1977:	Approximately 820 converted units--763 in downtown, 57 in non-downtown. 34% of the downtown residents bought; 68% of the non-downtown.							
	146	0	146	24 & under	10	5	5	151
	340	109	231	25-34	23	16	7	238
	178	88	90	35-49	6	3	3	93
	49	42	7	50-64	3	2	1	8
	107	40	69	65 & over	15	12	3	70
	820	279	541	Totals	57	38	19	520
1978:	Approximately 630 converted units--4 in downtown; 236 non-downtown. 15% of the downtown residents bought; 30% of the non-downtown residents.							
	56	0	56	24 & under	19	0	19	74
	217	24	193	25-34	92	18	74	267
	79	16	63	35-49	40	13	27	90
	27	8	19	50-64	40	20	20	39
	14	12	2	65 & over	45	19	26	30
	394	60	334	Totals	236	70	166	500
1979:	Approximately 1,440 units converted--560 downtown, in which 10-15% of existing tenants might buy; 480 in non-downtown in which 30% might buy.							
	280			24 & under	73			
	480			25-34	260			
	125	net available		35-49	56	net available		
	38			50-64	18			
	22			65 & over	73			
	930	86-124	815-884	Totals	480	144	336	1,152-1,200

Exhibit V-5  
Number of Tenant Purchasers  
By Age Group  
(Excluding Lodging Houses)

Downtown Neighborhoods			Non-Downtown Neighborhoods		
	Total Prior Residents	% of Prior Residents in Each Age Group Who Purchased Unit as Condo		Total Prior Residents	% of Prior Residents in Each Age Group Who Purchased Unit as Condo
<u>1969-1973:</u>			<u>1969-1973:</u>		
24 & under	12%	25%	not available		not available
25-34	24	10			
35-49	19	44			
50-64	17	36			
65 & over	28	36			
<u>1974-1977:</u>			<u>1974-1977:</u>		
24 & under	19%	0%	18%		50%
25-34	42	32	40		70
35-39	22	49	11		50
50-64	6	86	6		66
65 & over	13	37	24		80
<u>1978:</u>			<u>1978:</u>		
24 & under	14%	0%	8%		0%
25-34	55	11	39		20
35-49	20	20	17		33
50-64	7	30	17		50
65 & over	4	75	19		42
<u>1979:</u>			<u>1979:</u>		
24 & under	30%		15%		
25-34	50	not available	54		not available
35-49	13		12		
50-64	4		4		
65 & over	3		15		

## EXHIBIT V-6

TENURE OF RESIDENTS AFFECTED BY CONVERSION

Percent of Residents in Buildings Being Converted  
Who Lived There Three or More Years

	<u>Downtown</u>	<u>Non-Downtown</u>
1969-1973	40% (of whom 32% bought; 68% did not)	47% (of whom 63% bought; 37% did not)
1974-1977	20% (of whom 24% bought; 76% did not)	30% (of whom 30% bought; 70% did not)
1978	22% (of whom 21% bought; 79% did not)	52% (of whom 38% bought; 62% did not)
1979	44% (% of buyers not available)	46% (% of buyers not available)

Note: Referring back to Exhibit IV-1, the reader will note that long term residents are not necessarily more likely to purchase their units upon conversion than are shorter term tenants.

EXHIBIT V-7  
AGE OF PRIOR TENANTS WHO  
HAD LIVED IN THEIR UNITS THREE OR MORE YEARS

<u>Age</u>	<u>Downtown</u>	<u>Non-Downtown</u>
<u>1969 - 1973:</u>		
24 & Under	0%	0%
25-34	5	2
35-49	19	11
50-64	17	27
65 & Over	59 ] 75%	60 ] 87%
<u>1974 - 1977:</u>		
24 & Under	0%	0%
25-34	30	5
35-49	23	21
50-64	7	0
65 & Over	40 ] 50%	74 ] 75%
<u>1978:</u>		
24 & Under	6%	1%
25-34	29	19
35-49	29	22
50-64	23	26
65 & Over	13 ] 32%	33 ] 59%
<u>1979:</u>		
24 & Under	4%	0%
25-34	48	17
35-49	20	15
50-64	13	26
65 & Over	15 ] 25%	42 ] 68%

increasing opposition from neighbors and community groups who objected to both the condition of the buildings and the lifestyles of the residents. This was particularly true in Back Bay and on the north slope of Beacon Hill.

Historically, this population has not sought public protection and has had no political clout. The plight of the lodgers, which category includes students and transients, as well as permanent single-room occupants, has not aroused the sympathies that displacement of those with more middle class lifestyles has, although nearly five hundred rooms were lost to condominium conversion in just the last year, and many more are scheduled to follow. Lodgers virtually never purchase their units after conversion. Two-thirds of the lodging house population could be considered non-student and non-elderly poor, putting them in a no-man's land of diminishing housing options.

#### Downtown Rentals.

The data reveal that the early years of downtown condominium conversion affected more long-term and older residents than the present activity, both proportionately and absolutely. This is a direct reflection of the type of properties being converted, and of a broader change in neighborhood character over the past ten years. Nearly half the population in the buildings converted between 1969 and 1973 were over fifty years of age, and two-thirds of them had lived in their units for three or more years. The bulk of this early activity was concentrated in three years, 1971-1973. During that period sixty-five (65%) percent of the 275 tenants over the age of fifty chose not to purchase their units when offered for sale. This means that over fifty of these households had to find replacement housing each year. By contrast, only that number even lived in the units converted in 1978 and 1979, and in 1978, nearly half of these purchased their units leaving twenty-three to find replacement

housing. Final analysis of 1979 sales is not yet possible because the data are incomplete; however, the households in this age group who were affected that year (and there were fewer than seventy) lived in reasonably good buildings that were being offered as is or with only modest fix-up, and it appears that a similar number purchased or intended to purchase their units.

The factor which makes the elderly renters' situation more problematic today is a lack of decent rental alternatives, even in the higher price range. The national propensity for homeownership over renting (reflected in the disincentives to both owners and tenants of private rental housing) is in large part responsible for the present lack of such housing. Consequently, some older citizens are forced to buy, tying up their equity in housing at a time in life when such an investment may not be very attractive to them at the expense of other needs and priorities.

In part, the same difficulties confront younger renters who, in terms of sheer numbers, are the most adversely impacted by condo conversions. However, the options available to them tend to be broader. According to the Consensus Survey, Back Bay and Beacon Hill renters, as a group, are among the most affluent and mobile in the City. Most have no roots in the community and do not plan on making it their permanent home. They tend to have fewer persons per household and no dependents, two factors which further increase their per capita disposable income. They are also more educated than residents of other city neighborhoods, so while they may not presently have accumulated wealth and high incomes, they have a reasonable expectation of both at a later stage in life.

It was once reasonable to assume that tenants living in buildings slated for conversion would not otherwise have moved (except for the conversion), but that assumption is no longer valid. Although vacancy decontrol and the generally



tight rental market have caused more young people to remain in their present units, they are not expected to remain as lifelong renters. Rather, most young renters are simply biding time until the opportunities available to them appear more favorable.

Each year proportionately more of the downtown renters "condominiumed" out of their units have been under age 34--going from thirty-six (36%) percent in the early years to sixty-nine (69%) percent in 1978 and over eighty (80%) percent this year. Among young renters, those least inclined to purchase their units--or least able to afford them--are students and workers in lower paying, often entry level, positions. The experience in the North and South Ends to date has been similar to that of Back Bay and Beacon Hill. The tenants most directly impacted by the conversion activity tend to be young working people. The exception is the South End conversions involving lodging houses, and this activity closely parallels that in Back Bay and Beacon Hill. Unlike these neighborhoods, however, many of the South End conversions were undertaken of properties that were vacant or substantially vacant for extended periods prior to conversion.

#### Non-Downtown Rentals.

The characteristics of the tenants being directly affected by conversions in the non-downtown neighborhoods have not changed over time, reflecting the fact that the same stock types, appealing to much the same sort of tenants, are being converted now as were done five or six years ago, but at an accelerated rate. While there have been fluctuations by year, the data indicate that generally the buildings being converted are occupied by older tenants than in the downtown with half of them aged 34 or under and a quarter to a third aged 50 or over. Tenants, particularly the elderly, in such buildings move less often than their downtown counterparts; and in recent years they have been

more likely to purchase their units upon conversion. As is the case in the downtown, it is smaller households that are most often impacted, with the overwhelming majority of the units containing just one or two bedrooms. Rent levels prior to conversion, if not controlled, put the units into the top of the market category (by neighborhood standards). An interesting result of the non-downtown survey is that more elderly and retired households lived in the units following conversion than previously.

#### Summary.

Under ordinary market conditions, with an adequate supply of and normal vacancy rates for rental housing, conversion caused displacement would not necessarily be a problem. Such were the conditions in Boston in the upper end of the rental market during the early 1970's when condo conversions were first becoming prominent. For that reason, the re-entry onto the market of some 500 households, who, between 1970 and 1974, chose not to purchase their quality rental units upon conversion, aroused little public concern even though over forty (40%) percent of such households were older, long-term renters. However, because of low vacancy rates and rising rent levels, the process of finding replacement housing today at comparable costs or in the same neighborhoods can be difficult for persons now being evicted even though they may not be a particularly needy subset of the population. According to the Consensus Survey, between eighty-six (86%) and eighty-eight (88%) percent of all elderly renters and renter families with school age children pay less than \$300/month in rent; two-thirds pay under \$200. For the most part, these are not the people directly impacted by condominium conversions because theirs are not the units being converted. The inconvenience of the move may be compounded if the tenant's present rent is below the market, whether depressed by rent controls

or for other reasons. Although Boston rents (in decontrolled units) are usually considered quite high, there are indications that many renters could afford to pay more, even using the rather outdated "25% of income" rule of thumb. According to the 1978 Consensus Survey, three-quarters of the renters in the city with total household incomes of \$20,000 or more pay under \$400/month in rent (25% of \$20,000 is \$416). Three-quarters of all renters making \$15,000-\$20,000 pay under \$300/month (25% would be \$375-415). The relative affluence and mobility of the typical Back Bay/Beacon Hill renter who has been caught in the squeeze offers him/her more options than would be available to a moderate income family with school age children and roots in their community. That notwithstanding, the hardships are already quite severe for the limited number of tenants without the resources--physical and emotional, as well as financial--to make a move, and years of general holding back rent increases do not help them now.

#### Indirect Displacement: Loss of Rental Housing

The loss of rental housing in the presence of increasing demand results in more competition for the available units in sought after areas. It is this condition--demand exceeding supply--that generates concern about indirect displacement, and is the emerging situation in the downtown neighborhoods, particularly Back Bay and Beacon Hill, where the demand is greatest and the loss of rental units to condo conversion has been the most significant. Since 1970 less than 250 new rental units were created here while 2,200 were lost through conversion. This represents a net loss of fourteen (14%) percent of the rental stock. In addition, 600 rooms in lodging houses were lost through conversion. Of the rental apartments (as distinct from rooms) counted here

1,000, less than half, came from moderately priced inventory. The remaining 1,200 units would be considered luxury rentals. Other than the single rooms, virtually none of the Back Bay/Beacon Hill stock is considered low rent.

Conversion activity has now accelerated to the point where it is starting to limit the supply of rental housing in these two neighborhoods, but it is not as great a threat to the City's supply of low and moderately priced rental housing as abandonment and demolition of wood frame, two and three family homes, neglect and abuse of older public housing units, or the effects of inflation on housing overall. Nor is it as great a threat as the media accounts would suggest. The loss of 1,000 moderately priced units and net loss of 950 higher priced rentals (1,200 lost, 250 gained) in a highly transient neighborhood over a ten year period is relatively minor in light of the above concerns, particularly when one realizes that sixty (60%) percent of those who purchased these units as condominiums previously rented in the same neighborhood, if not the same unit, thus reducing the overall rental demand proportionately.

Concern has been expressed over what might happen to less affluent neighborhoods if the excess demand from the "hot markets" spills over into those areas in large numbers. To some extent such a spillover can be traced to those neighborhoods immediately adjacent to the core of conversion activity, i.e., the Fenway, Allston-Brighton, South or North Ends. The increased demand for housing in the Fenway and Allston-Brighton neighborhoods has come from students and young working people seeking moderately priced rental units. The increased demand in the North and South Ends has been from homebuyers for condominiums priced below those in the established neighboring markets. In the latter neighborhoods, the bulk of activity (excluding lodging houses and semi-vacant shells in the South End) has involved units that had previously been rehabbed to serve a fairly affluent class of renters.

It is unclear whether other areas will experience any massive in-migration of Back Bay renters. However, characteristics of the housing stock, ownership patterns, density, location and turnover argue strongly against that possibility.

Further study is required to track where the direct (evicted) and indirect (priced out of the market) displacees go. At the present, however, it appears that other external forces--high interest rates, rising property values following a decade of stagnation and revaluation looming on the horizon, to name three--will be more directly responsible for putting pressure on the City's basic "bread and butter" housing stock than conversions will. The exception, as previously noted, is the significant and continuing erosion of single rooms in lodging houses.

On balance, the City has gained more low and moderate income rental housing than it lost during the past decade:

<u>Units Lost Since 1970</u>		<u>Units Gained Since 1970</u>	
8,700	units in 2 and 3 family homes demolished	17,300	units built under federal and state subsidy programs
2,600	low and moderately priced rental units converted to condominiums including lodging house rooms		
2,000	units demolished in multi-family (5+ units) structures		
<u>13,300</u>		<u>+17,300</u>	--net gain 4,000 units

During this period the City gained 6,000 market and upper income units, 3,100 of them rentals:

3,100	new rentals
900	new condominiums (or recycled from non-housing uses)
2,000	condominium units that had previously been low/moderately priced rentals. (Note: there is not an even one for one exchange of low/mod rentals to condos since individual condo units are often created by combining more than one rental units).
<u>6,500</u>	

An additional 1,800 high rent units were converted to condominium ownership during the same period. Although their conversion affects the ratio of rental to ownership housing in the city, it does not affect the balance of low/moderate versus market rate housing.

Even discounting for the unoccupied/uninhabitable public housing units, the City has held its own in absolute number of affordable housing units. In large measure this is the result of a conscious policy decision by the City to serve the needs of low and moderate income households through the use of public subsidies, complemented by the presence of a cadre of savvy developers with the expertise to produce substantial numbers of new subsidized units in a timely fashion. With inflation forcing all households in the private market--renters and homeowners alike--to pay more for their housing, those whose payments are tied to 25 percent of their income with public subsidies picking up the balance are in a very enviable position. In essence, inflation has vindicated Boston's policy decision of providing for low and moderate income households through the use of subsidies. That Boston is unique in this respect is documented in Exhibit V-8, which compares the percent of Boston's overall housing stock that is publicly subsidized with a number of other cities.

#### Loss of Housing Choice

To date most public debate on the extent to which conversions jeopardize the rental housing inventory has been predicated on the assumption that the squeeze which results when units are converted mostly impacts elderly and low-income households. The Boston experience, as previously noted, does not bear out this assumption for the most part. Rather the issue that's emerging is how condominium conversions are impacting middle and upper income renters.

EXHIBIT V-8  
AMOUNT OF PUBLICALLY ASSISTED HOUSING\*  
IN VARIOUS CITIES

<u>City</u>	<u>% of total housing publically assisted</u>
Boston	18.0% (19.8% including units committed by not yet built)
Brookline	7.9%
Cambridge	14.4%
Baltimore	9.4%
Philadelphia	4.9%
Chicago	7.7%
Detroit	5.0%
St. Louis	8.6%
Denver	5.9%
San Francisco	4.7%
Seattle	4.0%
Sallas	6.4%

\* Includes all public, subsidized and leased housing commitments.  
Brookline and Cambridge figures are 1978.

who cannot, or more importantly, choose not to buy their units upon conversion. These are for the most part young people who lack money for a downpayment (pre-homebuyers) and empty nesters (former homeowners).

The elders may have cash assets but be living on a fixed income. The young people, often from middle and upper income families, have or expect to have in the future, higher than average per capita incomes, but they lack accumulated equity. Neither group has ever considered themselves less than middle income/middle class. Yet both groups now find themselves in a Catch-22 situation. The pre-homebuyer's choice is to: (1) pay a fair share rent which reflects the effect of inflation on housing costs and their landlord's investment which may mean they will never be able to accumulate the equity to purchase a home, or (2) continue to pay 1970's rents, which will allow him/her to save up a downpayment--or use the money for some other purpose--but which will virtually insure that the unit will be converted or otherwise withdrawn from the rental market.

In the case of the elders, many have sold homes and moved into fairly high rent, high quality apartments precisely because they don't want to own a home. They are no longer in a tax bracket that makes homeownership particularly advantageous. They are not interested in equity buildup, and by freeing up the equity they had tied up in their homes they have more money for other living expenses. Their dilemma is typified by the experience of one couple who sold their home two years ago for \$58,000. Exempt from capital gains tax they now have the money invested in certificates of deposit yielding eleven (11%) percent/year. The income they derive from interest alone amounts to more than \$6,300/year. After taxes and the \$450/ month rent on their two-bedroom apartment they still have more disposable income than they had as homeowners. Even though they had no outstanding mortgage on their home, taxes



cost \$2,100/year and fuel and insurance another \$1,200. Their apartment complex is now going condo. Their choices are: (1) purchase their unit for \$52,000 cash, which would put them in a worse cash flow position than when they previously owned since their taxes would be over \$3,000 and the common area charge (maintenance) another \$1,400. (2) They could obtain a mortgage on the unit, but at current interest rates that isn't a very attractive option; or (3) they could move into another nice rental unit--probably at a higher rent--and live with the uncertainty that it too will be converted.

The linkage between the plight of these households, whose numbers are likely to increase, and indirect displacement is rather tenuous. Certainly some of the pre-homebuyers--particularly those still in school or in entry level jobs--have moved from the Back Bay/Beacon Hill to rental units in Allston/Brighton and the Fenway as mentioned previously. At the same time new renters who might have chosen Back Bay/Beacon Hill, were units available there, have also turned their attention to these areas. Rather than competing with long-term moderate income families and elderly, however, they compete with households whose social and economic characteristics mirror their own. (The study found no evidence of rent gouging or harassment designed to drive out long term, low-rent-paying elderly, and to replace them with higher rent, but higher turnover young people.)

The elderly and empty nesters from the quality units have been far less likely to move into the older high turnover stock that predominates in these neighborhoods (Fenway, Allston/Brighton) so they can anticipate more tedious searching to find comparable units in comparable areas. Their alternative, where financially possible even if undesirable, is to take the route of least resistance and become a buyer. They are, in short, the ultimate captive market.

### Changing Neighborhood Profile

Obviously not all neighborhoods have been equally affected by the trend toward condominium conversions. The three neighborhoods whose profiles have been significantly altered by the condominium activity are Back Bay, Beacon Hill and the Waterfront. In large part the activity on the Waterfront has consisted of new development in recycled space, specifically for condominium ownership. Certainly this development has attracted a new and affluent population to that part of the City but it has done so without directly disrupting or altering an established residential community. In Back Bay and Beacon Hill, however, the activity has resulted in the following significant changes to the housing stock:

1. The number of rental accommodations including lodging house rooms was reduced by 2,800, or 21%;
2. The total number of housing units was increased by 2% (250 units) as the result of recycling dormitories and institutional uses; and
3. The percent of owner occupancy increased from 6% in 1970 to 20% in 1979 as a result of condo conversions. The overall percent of owner occupancy is probably even higher reflecting the fact that, during the same time period, some absentee owned rental properties were sold to individuals who maintain some rental units while occupying a portion of the building themselves.

The corresponding population changes that occurred during the decade of the seventies can be separated into two categories: (1) changes within individual buildings following conversion, and (2) overall neighborhood changes during the same period. According to a 1979 survey of Boston condominium owners by Condo, The Condominium Owners Association, roughly two-thirds of the respondents lived in the community prior to buying a condominium there. Two (2%) percent previously owned single-family homes, while sixty-one (61%) percent rented (either their present or another unit) in the same community. Thirty-six (36%) percent, according to the survey, were newcomers (14% having rented in another city and twenty-two (22%) percent having owned elsewhere). The BRA

survey indicated that, on average over the decade, twenty-five (25%) to twenty-eight (28%) percent of the condo owners in the Back Bay and Beacon Hill lived in their units prior to purchase, and that overall, nearly sixty (60%) percent had rented in the same neighborhood prior to buying. The combined results of these surveys show that conversions have not replaced one population with another as much as they have resulted in prior neighborhood renters becoming homeowners.

At the same time, a broader change in the character of the neighborhood's population has been taking place, to which condominium development and conversion has contributed. This change is reflected in the age and occupational composition of the residents of Back Bay and Beacon Hill in general. The students, student-aged (i.e., 18-24) and elderly populations have declined since 1970, while the age bracket in between has increased. A comparison of the 1970 age profile with that reported in the 1979 Consensus Survey (Exhibit V-9) reveals these changes.

The condominium universe exaggerates these changes, having fewer residents under age 24 or over age 65 than in the population in general and more in the 25-34 (first time buyer) and 50-64 (empty nesters) categories. Referring back to Exhibit V-4 the reader is reminded that not only have fewer elderly lived in the units being converted in recent years, but that a higher percentage of these have purchased their units upon conversion. Thus most of the loss in that age group occurred during the earlier part of the decade. The higher proportion of 25-34 year olds and 50-64 year olds reflects a growing national interest in urban living by households without school-age children. The resident profile by occupation (Exhibit V-10) reflects the changing socio/economic structure.

## EXHIBIT V-9

CHANGES IN AGE OF BACK BAY/BEACON HILL POPULATION  
1970 - 1978  
(Age of condominium residents shown in column at right)

<u>Age</u>	<u>1970</u>	<u>1978</u>	<u>Condominium Residents</u>
24 and under	29%	24%	12%
25-34	20%	30%	39%
35-49	12%	17%	22%
50-64	10%	5%	21%
65 and over	12%	9%	6%

EXHIBIT V-10  
 CHANGING OCCUPATIONAL STATUS OF RESIDENTS  
 IN CONVERTED BACK BAY/BEACON HILL BUILDINGS  
 (Breakdown for overall neighborhood shown at right.)

<u>Occupation of Head of Household</u>	<u>In Condo Buildings Prior to Conversion</u>	<u>In Condo Buildings Prior to Conversion</u>	<u>Total BB/BH Population According to 1978 Consensus</u>
Student	16%	9%	13.4
Professional (White collar professional, management level)	48%	67%	25.8
White Collar (Clerical, Office Worker)	15%	10%	28.0
Blue Collar, Skilled Blue Collar, semi- or unskilled	6%	4%	14.0
Arts	2%	2%	-
Retired, Not in Labor Force	13%	8%	2.2
Refused	-	-	16.7

The neighborhood in general is becoming more professional and this change is even more pronounced in the condominium universe. It should be noted, however, that the population in condo buildings was older and more professional than the population at large prior to, as well as following, conversion. Since a number of existing residents purchased their units and even more came from the immediate neighborhood, it can be reasoned that condo conversions in Back Bay and Beacon Hill have served as a vehicle to retain a population which otherwise and previously would have moved away. This rather positive phenomenon is quite different than the replacing of one permanent population with another.

For comparison, Exhibit V-11 presents selected socio/economic characteristics pre- and post-conversion in central cities nationally, based on the recent HUD study. In summary, HUD found that pre- as well as post-conversion residents of central city converted buildings--whether in revitalizing or non-revitalizing neighborhoods--have similar racial, income, age and employment characteristics. Where slight differences were discerned, the post-conversion households were somewhat more likely to be white, non-elderly and have higher incomes.

## EXHIBIT V-11

SELECTED SOCIOECONOMIC CHARACTERISTICS PRE AND POST CONVERSION  
LOCALLY AND NATIONALLY\*

Selected Socioeconomic Characteristics	NATIONALLY		BOSTON CONVERSIONS			
	Central City Conversions		Downtown		Non-Downtown	
	preconversion (%)	postconversion (%)	preconversion (%)	postconversion (%)	preconversion (%)	postconversion (%)
Incomes of less than \$12,500	18	15				
Incomes of \$30,000 or more	31	38				
Professional/Managerial Occupations	59	63	48	67	39	43
Retired	16	12	13	8	17	20
Age 65 or Older	23	17	13	6	18	24

690

\* As reported in HUD's study The Conversion of Rental Housing to Condominiums and Cooperatives.

## VI. OUTLOOK FOR FUTURE ACTIVITY

The preceding chapters traced the evolution of condominium activity over the past decade and discussed the effects of this activity which, to date, have been more positive than negative in most--though not all--cases. It is worth examining the current activity and rumblings in the marketplace more closely to project what, if any, changes are in store.

In April, the Boston Rent Control Administration (BRCA) published a set of regulations governing condominium related evictions (Appendix C). One of the requirements of the regulations is that, when a property owner notifies a tenant of his/her intent to convert as required by Boston's condominium ordinance, a copy of that letter must also be sent to the BRCA. Some preliminary analyses were undertaken of all such notices received during the first two months that the regulation was in effect. The results are quite interesting. They showed an equal number of properties intending to convert in downtown and non-downtown neighborhoods. However, in terms of number of units involved the non-downtown neighborhoods outpaced those in the downtown by more than a four-to-one ratio since the average building to be converted there contained close to fifty units while in the downtown it contained only eleven. Exhibit VI-1 shows the age breakdown of present tenants in those buildings. By referring back to Exhibits V-3 and V-4 the reader will note that there has been no significant shift in the age of the population being affected in either the downtown or non-downtown neighborhoods. Rather the change is that significantly more non-downtown units are now being converted. Therefore more older residents will be affected.

The percent of units which are still rent controlled varied from property to property. Generally where a younger, more transient population lived, more of the units--in some cases all of them--are vacancy decontrolled. Those



## EXHIBIT VI-1

AGE DISTRIBUTION OF TENANTS  
IN BUILDINGS SCHEDULED FOR CONVERSION\*

<u>Age</u>	<u>Downtown</u>	<u>Non-Downtown</u>
24 and under	25%	22%
25-34	57	40
35-49	13	10
50-64	1	10
65 and over	3	18

\* based on "Letters of Intent to Convert" filed with the Boston Rent Control Administration during the first two months that copies of such letters were required to be sent there.

properties which house an older stable population tend to still be controlled. A recent BRA survey of rent controlled units confirmed this pattern showing overwhelmingly that rent controlled units were serving an elderly population. The exception to this was in the downtown neighborhoods of Back Bay and Beacon Hill where younger renters were holding on to their "good deals." In one of the properties being converted eighty (80%) percent of the units were still rent controlled. The average rent level in the well-maintained, post-1960 building of studio, one-, and two-bedroom apartments is approximately \$220 per month, up only twenty (20%) percent since 1972, and more than half of that increase reflects the general adjustment granted in 1977 which covered only increasing taxes. The vacancy decontrolled units are fifteen (15%) to thirty (30%) percent higher. The owner's most recent request for a \$20 per unit per month increase was rejected. At least two of the other proposed non-downtown conversions had similarly low rents but in these cases it was not just rent controls that limited the income since one was one-half decontrolled and the other was three-quarters decontrolled.

In most cases the letters of intent to convert were sent out by long term professional owner/managers (having owned the property for three or more years). However, at least a couple of properties appear to have been purchased recently specifically for conversion.

Exhibit VI-2 summarizes the trends in condominium development over time and makes some projections about what types of stock will be most susceptible in the future. In general, there will be considerable demand side pressure on much of the stock in the "hot" downtown neighborhoods unless the demand can be channeled into newly created units. In other stable neighborhoods there isn't a pent-up demand, but existing tenants and homeseekers who find their options diminishing will be pursued as buyers by owners trying to sell out. In the

Exhibit VI-2  
TRENDS IN CONDOMINIUM DEVELOPMENT;  
PAST, PRESENT, FUTURE

	Back Bay/Beacon Hill	North End/Waterfront	Charlestown St. Botolph, South End	Other Downtown	Other non-Downtown
<u>Past</u>	<ul style="list-style-type: none"> <li>- Stable, luxury units first</li> <li>- Movement toward more mid-range rentals in strong-est locations</li> <li>- Some recycling of instit. uses &amp; conversion of lodging houses</li> </ul>	<ul style="list-style-type: none"> <li>- Newly created units &amp; recent rehabs predominate</li> </ul>	<ul style="list-style-type: none"> <li>- Some conversion generally sub-rehab; no real trend</li> </ul>		<ul style="list-style-type: none"> <li>- No dominant trend as to building type; trend rather to properties in well-located prop-erties in good condition</li> </ul>
<u>Present</u>	<ul style="list-style-type: none"> <li>- Increasing number of instit. &amp; lodging house conversions; also sub-rehab of rentals in poor repair</li> <li>- Increasing number of mid-range rentals, some being improved, some sold "as is"</li> <li>- More actors getting involved in conversion activity</li> </ul>	<ul style="list-style-type: none"> <li>- Continuation of earlier trend-- more recycling &amp; recent rehabs</li> <li>- Marked increase in sales by owner occupants of recently renovated units</li> </ul>	<ul style="list-style-type: none"> <li>- Luxury units in developer-owned recently rehabbed rental properties</li> <li>- Conversions of vacant and partially vacant lodging houses</li> </ul>		<ul style="list-style-type: none"> <li>- More newer (post-1960) rentals being converted</li> </ul>
<u>Future</u>	<ul style="list-style-type: none"> <li>- Remaining lodging houses, to be sub-rehabbed</li> <li>- Poorly maintained, high turnover rentals to be sub-rehabbed</li> <li>- Few remaining well-maintained, investor-owned rentals</li> </ul>	<ul style="list-style-type: none"> <li>- Luxury rental units in owner-occupied buildings nearest waterfront</li> <li>- No. End rentals in rehabbed buildings</li> </ul>	<ul style="list-style-type: none"> <li>- Other empty or under-utilized stock</li> <li>- Recently rehabbed rental units, some of them own/occ.</li> <li>- Unrehabbed buildings whose long-term owners are looking to sellout. Includes lodging houses as well as rentals and single families.</li> </ul>	<ul style="list-style-type: none"> <li>- Large luxury rental devel-ments built since 1960 on fringes of residential Back Bay, Beacon Hill &amp; Waterfront</li> <li>- Underutilized manf. &amp; comm. space, recycled for housing.</li> </ul>	<ul style="list-style-type: none"> <li>- Large post-1960 mid and high-rent buildings in stable and/or strong areas</li> <li>- Low rent buildings in stable and/or strong areas which have continued to be well maintained.</li> </ul>

\* (Stock considered susceptible due to strong demand pressures and/or the desire of the present owners to get out.)

past such marriages have worked out well for the purchasing tenants as well as the former owner. However, if a third party is involved, there may be a corresponding increase in cost which could make the units unaffordable, even if desired, by existing tenants.

Some of the pressures which make owners of attractive marketable units want to sell also bear on owners of less desirable or more troublesome properties (e.g., poorly rehabbed rentals or moderate to poor condition rentals in less sought after areas.) The marketplace has consistently shown a capacity for identifying and rejecting such units. However, significant disruption can occur if such ill-conceived conversions are allowed to proceed even though they may ultimately prove unmarketable.

Another potentially vulnerable structure type which probably shouldn't be is the small (2-4) building anywhere in the City. Small rental properties with a resident owner should be one of the most feasible and desirable ways of maintaining a supply of rental units. In hot markets the prospect of a substantial quick profit might compel an owner to sell. In other areas, however, there aren't such demand pressures unless artificially induced by public programs or policy.

The following chapter looks at current activity around the country and what regulations have been enacted in response to it.

## VII. NATIONAL TRENDS IN CONDOMINIUM CONVERSIONS<sup>6</sup>

Throughout the country, approximately 366,000 rental units were converted to condominium or cooperative ownership between 1970 and 1979. Most of this activity occurred during the latter half of the 1970's. For the five years between 1970 and 1975, 86,000 rental units were converted. During the next four years, 280,000 were converted with dramatic increases occurring annually: converted units totalled 20,000 in 1976; 45,000 in 1977; 80,000 in 1978; and 135,000 in 1979.

Although conversion activity has been relatively concentrated in and around the thirty-seven largest SMSA's, HUD found evidence to suggest that the phenomenon may be spreading to, or increasing in, smaller metropolitan areas. To date, twenty (20%) percent of the nation's total conversion activity has been concentrated in the Chicago SMSA (70,000 units) and eleven (11%) percent in the Washington, D.C. area (11,000 units). In all, nearly sixty (60%) percent of the activity has been concentrated in twelve metropolitan areas. However, a trend seems to be emerging. Between 1970 and 1976, sixty-three (63%) percent of all converted units were located in the twelve high activity SMSA's. This proportion fell slightly to fifty-seven (57%) percent between 1977 and 1979, while the proportion of activity in other areas was increasing. Nearly half of the conversion activity outside the thirty-seven largest SMSA's occurred in one year, 1979.

The proportion of the nation's total rental stock which has been converted to condominium (or cooperative) ownership is very low - just 1.31% - but there is wide variation among localities. Exhibit VII-1 presents a comparative analysis of the most active markets, of which Boston ranks sixth.

## EXHIBIT VII-1

Percent of Total Rental Housing Converted to Condominium Ownership  
(1970-1979)  
In the High Activity Areas Studied by HUD

<u>Location</u>	<u>Total SMSA</u>	<u>City</u>	<u>Balance of SMSA</u>
Washington, DC	7.73%	6.86%	8.22%
Denver/Boulder	6.96%	8.79%	5.19%
Chicago	6.75%	5.37%	9.30%
Houston	5.38%	7.27%	NA
Minneapolis/St. Paul	3.42%	1.41%	6.25%
		2.20% (HUD est.)	
Boston	2.37%	1.90% (BRA est.)	2.46%
Miami	1.46%	1.33%	1.63%
San Francisco	1.39%	0.51%	2.19%
New York City	0.72%	0.58%	1.55%
Los Angeles	0.64%	0.30%	1.04%
Tampa/St. Petersburg	NA	3.26%	NA

Average in 12 most active SMSA's: 2.71%  
Average in 37 largest SMSA's: 2.22%  
Average conversion rate annually: 1.31%

As the pace of conversion activity has accelerated, pressure has been brought to bear on all levels of government to regulate conversions. Most of these efforts have originated at the state and local levels in communities experiencing heavy or increasing conversion activity, even though there is widespread agreement that explicit Federal tax policy is in large part responsible for the proliferation of condominium conversions. Just under one-half of the states have legislated protection for tenants of converted buildings. Slightly more have laws protecting purchasers of both new and converted condominium units (Exhibits VII-2 and VII-3). At the local level, although over one-third of all jurisdictions have had or presently have conversion activity, fewer than one in five of those has passed regulatory legislation. Some historical background on this government involvement, as well as a review of current initiatives is presented in this chapter.<sup>7</sup>

The first U.S. law permitting condominium ownership was enacted in Puerto Rico in 1958. In 1961 the Federal Housing Administration was authorized to insure mortgages for condominiums, and the following year drafted a model condominium statute to guide the development of state enabling acts. By 1968, all fifty states had enacted "horizontal property acts" to permit condominium ownership. The basic condominium laws are still these state enabling statutes, enacted in the 1960's to give legal recognition to the condominium form of ownership, to provide the framework for submitting real property to condominium ownership, and to set forth provisions relating to the internal management of condominium associations.

Beginning in the late 1960s, some states and cities began enacting more stringent regulations designed to guarantee the quality of new condominium development, provide consumer protection for the condominium buyer, and prevent tenant-related abuses. However, none of these statutes addressed the issues

Exhibit VII-2

State Statutes Affecting Protection to Tenants in Condominium and Cooperative Conversions<sup>1</sup>

	Notice of Intent to Convert/Minimum Occupancy (in Days)	Tenant Right to First Refusal (in Days)	Right to Quiet Enjoyment	Relocation Assistance	Other
Alabama					
Alaska					
Arkansas					
Arizona	120	30	X		X <sup>4</sup>
California	120	90		X	
Colorado	60			X	
Connecticut	120	90		X	X <sup>5</sup>
Delaware					
Florida	180 - 270	90			
Georgia					
Idaho					
Illinois	120	180	X		
Indiana					
Iowa					
Kansas					
Kentucky					
Louisiana					
Maine					
Maryland	120				X <sup>7</sup>
Massachusetts					
Michigan	120	90			X <sup>7</sup>
Minnesota	120		X		
Mississippi					
Missouri					
Montana					
Nebraska					
Nevada	90	90			
New Hampshire	90	90	X	X	
New Jersey	90 <sup>2</sup>	90	X		
New Mexico					
New York	-1 <sup>3</sup>	-1 <sup>3</sup>	X		X <sup>6</sup>
North Carolina					
North Dakota					
Ohio	120	90			
Oklahoma					
Oregon	90 <sup>3</sup>	30	X		
Pennsylvania					
Rhode Island					
South Carolina					
South Dakota					
Tennessee	90			X	
Texas					
Utah					
Vermont					
Virginia	90	90			
Washington					
West Virginia	120	90			X <sup>7</sup>
Wisconsin	120	90			
Wyoming					
Uniform Condominium Act	120	90			X <sup>7</sup>

<sup>1</sup> Most state provisions apply only to condominiums.

<sup>2</sup> Notice period for rent control and rent stabilization tenants.

<sup>3</sup> Does not constitute or include notice to terminate tenancy.

<sup>4</sup> Tenant provides 3-year notice of intent to vacate unless proceedings.

<sup>5</sup> Provides relocation assistance for tenants to purchase.

<sup>6</sup> Provides relocation assistance for tenants to purchase.

<sup>7</sup> Subject to certain rules.

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Exhibit VII-3

State Statutes Affording Protection to Buyers in Condominium and Cooperative Conversions<sup>a</sup>

	Rights and Obligations						Reserve		Status		Right to Recall	Other		
	Resale	Transfer	Lease	Assignment	Sublease	Legal	Reserve	Reserve	Reserve	Reserve		Right to Recall	Right to Recall	Other
Alabama														
Alaska														
Arizona														
Arkansas														
California														
Colorado														
Connecticut														
Delaware														
Florida														
Georgia														
Hawaii														
Idaho														
Illinois														
Indiana														
Iowa														
Kansas														
Kentucky														
Louisiana														
Maine														
Maryland														
Massachusetts														
Michigan														
Minnesota														
Mississippi														
Missouri														
Montana														
Nebraska														
Nevada														
New Hampshire														
New Jersey														
New Mexico														
New York														
North Carolina														
North Dakota														
Ohio														
Oklahoma														
Oregon														
Pennsylvania														
Rhode Island														
South Carolina														
South Dakota														
Tennessee														
Texas														
Utah														
Vermont														
Virginia														
Washington														
West Virginia														
Wisconsin														
Wyoming														
Indiana Condominium Act														

<sup>a</sup> Some state provisions apply only to condominiums.  
<sup>b</sup> Indiana Condominium Act with amendments.  
<sup>c</sup> Statute may extend or exceed by local or governmental.  
<sup>d</sup> Statute may extend if Public Housing Statute is amended.  
<sup>e</sup> Statute may extend to public housing, private, public and other, etc.  
<sup>f</sup> Statute may extend.  
<sup>g</sup> Statute may extend prior use of building.  
<sup>h</sup> Statute may extend.  
<sup>i</sup> Statute may extend to public housing, private, public and other, etc.  
<sup>j</sup> Statute may extend.  
<sup>k</sup> Statute may extend.  
<sup>l</sup> Statute may extend.  
<sup>m</sup> Statute may extend.

that are currently generating concern as the result of condominium conversion: the displacement of existing tenants and the loss of rental housing. To fill this void, some local governments have enacted ordinances explicitly designed to protect rental housing and to assist tenants who are being involuntarily displaced. These controls range from temporary moratoria on conversions to a variety of regulations pegged to such factors as tenant approval, local vacancy rates or proportion of rental housing in the total stock. They have all been adopted in response to a perceived emergency situation and to public outcry over displacement in general. According to a study prepared for the Urban Consortium there appears to be fairly widespread recognition on the part of local officials that:

...first, displacement is an income problem which has become a housing problem primarily because of inflation; second, the role of conversions in displacement may in fact be very small, and third, solutions to the displacement problem ultimately require that action be taken at the national level relative to income and housing supply.

However, finding themselves as front line targets for public expressions of anger and panic over displacement, local officials have attempted to alleviate some of the problem by controlling conversions in a variety of ways. The following section briefly identifies some of these measures, without passing judgment on the relative merits or possible negative consequences of any of them.

#### CURRENT INITIATIVES AT THE FEDERAL LEVEL

The Federal government has several housing programs which may be used to insure or subsidize the conversion of a rental property or to purchase individual condominium units or cooperative shares. Low income cooperative members are eligible for rent subsidies under HUD's Section 8 program and Community Development Block Grant Funds have been provided to local governments for

innovative programs related to conversion. (Brookline's Equity Transfer Assistance Program is one such example of a federally funded pilot effort.) In addition, the secondary mortgage market activity of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA), whose primary function is to create a secondary market for residential mortgages (including condominium units) to insure an adequate and stable supply of funds for housing, play a significant role in the financing of condominium conversions. Their underwriting standards for the purchase of condominium mortgages are intended to provide a measure of protection to buyers of converted units.

A number of pieces of legislation have also been submitted over time dealing specifically with the issue of conversion, although none has yet been enacted. In January 1978, the American Bar Association approved the Uniform Condominium Act drafted a year earlier by the National Conference of Commissioners on State Laws. The purpose of the act was to provide states with a comprehensive model law designed to update their earlier enabling legislation. The act contains five articles dealing with the creation, purchase, and administration of condominiums. Among the consumer (purchaser) protection provisions required are the following:

- full disclosure of: persons involved with the project; any known problems of code violations; balance sheets, budgets, service expenses and financing arrangements; and any fees for use of facilities;
- statement of implied warranty of quality of construction;
- provision of a fifteen day "cooling off period" enabling a purchaser to change his mind without penalty.

In addition, the act contains several tenant protection measures:

- a ninety-day eviction notice;
- sixty-day right of first refusal; and

- guarantee that if a tenant chooses not to purchase his/her unit, it may not be offered at better terms to another purchaser for 180 days.

In 1978, legislation was introduced into both Houses of Congress recommending minimum national standards for disclosure and consumer protection for condominium purchasers and owners, and tenants in buildings being converted. Although no action was taken on it that year, it was reintroduced in the present session unchanged and has been referred to committee. The House version of the bill called the Condominium Act of 1979 is similar in many respects to the Uniform Condominium Act, but stronger. Tenant eviction notice is extended from 90 to 120 days; disclosure of code violations must be accompanied by the cost of correcting each; a written report is required on the condition of structural components and mechanical systems, and their useful life; and warranties of one year for individual units and three years for common elements are required against defects, repairs and improvements.

In May of this year the Senate reported out its version of the Housing and Community Development Amendments of 1980. Title V of this bill, "Condominium and Cooperative Conversion Protection and Abuse Relief Act of 1980" encourages the use of the condominium and cooperative forms of ownership as a way of meeting the shortage of adequate and affordable multi-family housing throughout the country.

The strongest anti-conversion measure before Congress is HR5175, "Condominium-Cooperative Conversion Moratorium Act of 1979: For Tenant Protection and For the Preservation of Rental Housing, submitted by Representative Benjamin Rosenthal of New York, calling for a three-year nationwide ban on conversions. During this period a Presidential Commission would be appointed to study the conversion process and its impact. This bill has been referred to committee and is unlikely to be reported out favorably.

## CURRENT STATE AND LOCAL INITIATIVES

Specific local controls fall into the three broad categories of: consumer protection, tenant rights and prevention of displacement. Many localities, prior to adopting legislation, have imposed conversion moratoria and required that studies be undertaken to identify the extent and effect of condominium conversions. A moratorium is one means of permitting a city to study the local conversion market in order to enact an appropriate, more permanent ordinance. In many communities, any public discussion of possible future restrictions is a catalyst for further conversion. This has been less true in Boston than in other cities, however, for two reasons: (1) Boston requires no local approvals for conversions to take place; and (2) the filing of a master deed triggers a reassessment of the building which typically increases the tax liability beyond what an owner could reasonably support based on the building's income as a rental. It is still too early to tell if Boston's recently enacted one year notification period has resulted in property owners sending out "intent to convert" notices when they really have no such intention. The number of landlords complying with the Boston Rent Control Administration guidelines to date does not appear to be artificially inflated, however. Among the cities that have enacted conversion moratoria are:

<u>City</u>	<u>Length of Time</u>
Alameda, California	11 months
Palo Alto, California	6 months
Washington, D.C.	2 years (extended 180 days)
Arlington Heights, Illinois	2 months
Evanston, Illinois	9 months
Skokie, Illinois	7 months
Philadelphia, Pennsylvania	18 months
Edmonds, Washington	4 months
Lynnwood, Washington	3 months
Seattle, Washington	6 months

#### Consumer Protection Measures

Most states that have enacted conversion legislation require disclosure of certain information at the time a developer files for a condominium permit or files a condominium declaration. Typically this includes financing and promotion plans and disclosure of all controlling interests in the project in addition to the plans, by-laws, etc., which are required in Massachusetts. In addition, most municipalities with ordinances require that a full property report be provided to all prospective purchasers detailing building condition and expected life of mechanical systems and structural elements. In addition, projections of maintenance, repair and replacement costs for three to five years are sometimes required. Most cities with condo ordinances also require that a building be in code compliance prior to the sale of the first unit. Some require minimum standards. Connecticut's requirement of separate utility meters is one such example. Other consumer protection measures frequently adopted resemble the proposed national and model legislation (e.g., warranties, cooling off periods, etc.).

#### Tenant Protection Measures

These ordinances are typically concerned with notification of intent to convert, eviction notice, relocation assistance, and protection from harassment or coercion. Seemingly all local conversion ordinances require that tenants be notified when a declaration or application to convert a rental property is filed. In some cases, usually in area with low vacancy rates, the proposal to convert must be reviewed and approved by existing tenants. In New York City 35% of the existing residents must agree to buy their units; in San Francisco that number must consent to the conversion if the building is considered other than high rent; and in Palo Alto the requirement is two-thirds

approval. To allow tenants in buildings about to be converted time to find new accommodations if they choose not to purchase, many cities require extended notices to vacate ranging in duration from three months to three years.

Special consideration is sometimes given for tenants with special needs--the elderly or handicapped or households with school age children (Exhibit VII-4). During this period most areas stipulate that rents can only be increased to cover rising operating and maintenance costs, this to prevent tenants from being forced to leave as a result of extraordinary increases. In addition, cities have adopted a number of anti-harassment provisions to prevent a developer from forcing the early departure of a tenant.

Some communities require developers to pay relocation expense for some or all tenants. Compensation ranges from \$150 in Alameda, California to up to \$1,000 per family in San Francisco. Seattle requires \$350 per unit and Washington, D.C., ties the payment to the size of the apartment being vacated (at \$125 per room). Other formulas for monetary compensation are based on the difference between the rent level in the converted unit and the rent in a new location; or on a waiver of a number of months' rent. In some areas the assistance is not monetary, but rather that the developer must find suitable replacement housing. Another provision helping those tenants forced to move is the tenant's option to cancel his/her lease any time after the notification of intention to convert the building. Thus, tenants are not bound by their leases if they can find suitable housing before the lease expires.

Many conversion laws require initial sales offerings to existing tenants. Typically tenants are given 30-60 days to decide whether or not to purchase. Seattle allows the existing tenant a sixty-day exclusive right to purchase and, if rejected, the law stipulates that the developer cannot offer the unit for sale to anyone else on more favorable terms for one year. If the tenant

Exhibit VII-4

Additional Protections for Elderly  
and Handicapped Tenants

	Additional Notice of Cancellation	Lease Extensions	Life Tenancies	Additional Decision Period to Extend Lease	Extended Right to First Refusal	Relocation Assistance
Beachwood, OH	X					
Boston, MA	X					
Cheltenham, PA		X		X	X	
Chicago, IL	X	X				
Duarte, CA						
Indianapolis, IN	X					
Lakewood, OH	X			X	X	X
Los Angeles, CA		X				
Lower Merion, PA		X				
Lyndhurst, OH	X					
Minneapolis, MN	X			X	X	
Montgomery Co, MD	X					
New York, NY			X			
Newport Beach, CA		X				
Oakland, CA		X	X			
Oceanside, CA						
San Diego, CA	X					
San Francisco, CA						
Stokie, IL		X	X			X
Walnut Creek, CA						
Weyzata, MN	X		X			X

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and Cooperatives



chooses not to purchase his/her unit, the unit shall be made available to other tenants in the building. In Washington, D.C., in addition to the right of first refusal, tenants are also given the right to match any written offer made by other potential buyers.

#### Anti-Displacement Measures

Many of the tenant protection measures mentioned above are intended to mitigate against the disruption caused by an involuntary move. However, the displacement issue, because its real causes are rooted in social and economic forces that are not controlled at a local level, is more difficult to address. The situation has led some cities to regulatory procedures which are tied to local market conditions (e.g., vacancy rates); characteristics of the tenants (e.g., age or income) and their support of a particular conversion; or the overall availability of low and moderate income housing stock.

Because many of the areas where condominium conversions are perceived as being a problem are experiencing a shortage of rental housing, some cities have adopted ordinances prohibiting conversions whenever the vacancy rate falls below a predetermined level. In a recent survey of fifteen cities and urban counties, the Urban Consortium found that five of the respondents (Chicago, Washington, Los Angeles, New York, and New Orleans) felt that conversions posed a problem in their area, and that all five had a rental vacancy rate of three (3%) percent or less. None of the areas with higher vacancy rates reported a problem and only one (Columbus) with a lower rate said that conversions were not a problem. Generally the vacancy threshold is 3-5%.<sup>9</sup>

Some communities have enacted provisions aimed directly at preserving low income housing stock. One method of doing this is by reviewing each application or declaration in light of its effect on the supply of low and moderate income

housing. Cambridge and Palo Alto have adopted this approach and it is one factor in the proposed permit process for Brookline. San Francisco requires all units which the planning commission deems part of the city's supply of low and moderate income housing, to be in a price range affordable to current tenants. Within these guidelines conversions have continued to take place. Washington, D.C., protects low income tenants by applying a vacancy rate threshold only to low-rent housing. Conversion of high rent units are unregulated. Marin County and Palo Alto require that a certain percentage of the units in each conversion be priced specifically for low or moderate income households.

Many of the cities mentioned continue to review and modify their policies toward condominium conversions as their situations change. In addition, more and more communities are exploring policy options in any of these three broad areas of concern. Exhibit VII-5 highlights the provisions of these various statutes.

#### CURRENT INITIATIVES IN MASSACHUSETTS

Chapter 183A of the Massachusetts General Laws was enacted in 1963 to allow for the creation of condominiums. To date that is the only state regulation pertaining specifically to condominiums. Two state representatives did file bills to regulate condominium conversions within their own communities during the 1979 session of the Legislature but neither was signed into law.

Representative Sandra Graham of Cambridge filed a bill to protect all persons 62 years of age and older from eviction, which bill she subsequently amended to provide for a "means test" to place a ceiling on a person's total assets and income to qualify for protection. However, the bill was never voted out of the Local Affairs Committee.

**Exhibit VII-5**

## LOCAL CONDOMINIUM AND COOPERATIVE CONVERSION REGULATIONS IN THE NATION'S LARGEST METROPOLITAN AREAS

[illegible]

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CODES

- I Ordinance Pending
- \* Additional outside Central City jurisdictions in the SMSA having ordinances.
- A. Tenant Protection
- B. Buyer Protection
- C. Rental Stock Protection
- D. Preservation of Low- and Moderate-Income Housing
- § New York City has special state statutory authority covering elderly persons in conversions.
- § Local jurisdictions in Nassau, Rockland, and Westchester Counties may also be covered by state law protections for the elderly by passing a local option ordinance. The following communities have opted to be covered by State law.

Nassau County ( Nassau/Suffolk)

Great Neck	Great Neck Plaza
Long Beach	North Hempstead
Thomaston	Rockville Centre
Russell Gardens	

Rockland County (New York SMSA)

Clarkstown	Nyack
Haverstraw	Spring Valley

Westchester County (New York SMSA)

Eastchester	Greenborough	Pleasantville
Harrison	Hastings-on-Hudson	Port Chester
Larchmont	Irvington	Tarrytown
Mt. Vernon	Mamaroneck	White Plains
	New Rochelle	

FOOTNOTES

1. A Baltimore ordinance was struck down by a lower court; this decision was sustained on appeal.
2. A Chicago moratorium ordinance was struck down in Federal Court.
3. A Miami moratorium and conversion ordinance was struck down by a lower court and the case is on appeal.
4. A Fort Lee, N.J. moratorium was struck down by a lower court.
5. A Verona N.J. moratorium was struck down by a local court.
6. A Washington, D.C. moratorium was struck down by a lower court. The lower court's ruling was sustained on appeal.

That same year, Brookline Representative John Businger introduced legislation which would have established a local permit process for converting apartments to condominiums. The bill proposed no specific criteria to be met in order to allow conversions to proceed, nor did it specify which local body would administer the system. It was intentionally drafted this way to give maximum flexibility. The bill was passed by both Houses but died when the Governor sent it back, unsigned, on a technicality.

In addition to these home rule petitions, the Commissioner of Uniform State Laws submitted H318, the Uniform Condominium Act, described previously. This major package of disclosure laws and consumer protection measures for potential buyers was tabled in the third reading.

A wide range of tenant rights, consumer protection and anti-displacement measures--some seventy bills in all--were filed in the 1980 session of the Legislature. Most were attached to a bill proposed by the Secretary of the Executive Office of Community Development, Byron Matthews, and introduced into the Legislature by Representative John Cusak of Arlington, Chairman of the House Urban Affairs Committee. Among the highlights of the bill, which was an effort to provide some uniformity and consistency statewide on the issue of condominium conversion, were the following:

- a non-eviction clause for elderly tenants meeting the Section 8 income eligibility requirements (i.e., those with income less than eighty (80%) percent of the median for the area). This clause was often referred to as providing "life estate" status for such households.
- authority for individual communities to regulate the conversion process once ten (10%) percent of their rental stock had been converted;
- a standard notice period to tenants of owner's "intent to convert". This period would be one year for low and moderate income households (again, within Section 8 income limits) and six months for all others; and

- \* a guaranteed ninety day "option to buy" for existing residents.

Although the legislation itself and the hearings on it generated a great deal of interest, the bill was not enacted.

Representative Businger reintroduced his earlier home rule petition which again passed both Houses but was pocket vetoed by the Governor. The only legislation dealing directly with condominium conversions to pass was a home rule petition by the City of Cambridge amending their rent control ordinance to disallow the eviction of any person over age sixty for the purpose of condominium conversion.

In addition, under authority granted in the comprehensive housing package, adopted as Chapter 490 of the Acts of 1980, the State can purchase up to six units in a condominium structure under the provisions and funding of its Chapter 667 program. This program was designed specifically to address the issue of displacement of the elderly. On the municipal level both Brookline and Cambridge have taken measures in response to concern over conversions.

#### Brookline

In May of 1979 the residents of Brookline voted to amend that town's rent control ordinance by providing for a ban on evictions of tenants in buildings that have been converted. This ban superceded an earlier policy of granting a six month eviction stay for all tenants and an additional six months for the elderly. While this action has considerably slowed the rate of conversions, it has not stopped them entirely. The fact that the ban is on evictions and not on conversions leaves open the possibility that a new owner could obtain a rent increase in order to realize a fair net operating income (based on the purchase price of the unit), which increase might be beyond the means of the present tenant to pay. Also, owners could convert, but not sell individual

units until they became vacant. More recently, as the result of a petition drive, the town established a process for obtaining a permit to convert. This permit process is in addition to the existing bans on evictions. Among the requirements to be considered in determining whether a conversion can take place are the following:

- that the building be up to code;
- that 75% of the tenants have agreed to buy or vacate their units voluntarily;
- that the building (units) removal from the rental stock will not adversely affect the housing stock available for low and moderate income households;
- that the master deed must stipulate the condominium will be democratically controlled and the developer must retain no control other than as a unit owner.

This process is currently being appealed in court.

#### Cambridge

In August of 1979 the Cambridge City Council voted to adopt a permit procedure to regulate the removal of rent controlled housing units from the market. Among the factors the Rent Control Board must consider in deciding whether to grant such a permit are: the benefit to the persons seeking the permit; the hardships imposed on the existing tenant(s), including any mitigating provisions made by the applicant; and whether the units removal will aggravate the shortage of decent rental housing for families of low and moderate income and elderly people on fixed incomes. This regulatory procedure will remain in effect until the vacancy rate on controlled rental units, excluding public housing, is more than what existed on January 1, 1970.

Boston

Concerned over the escalating pace of conversion activity locally, Mayor White signed into law in December an ordinance he initiated regulating evictions for condominium conversions. Basically the ordinance freezes evictions for at least twelve months before landlords, whether for controlled or decontrolled units, can begin the eviction process through the Boston Rent Board. The eviction freeze would extend for two years for elderly or handicapped households with incomes below eighty (80%) percent of the median for the metropolitan area (i.e., eligible for Section 8 assistance). (A copy of the Boston ordinance and the administrative procedures adopted by the Rent Board appear in Appendix C.)



## VIII. ANALYSIS AND CONCLUSIONS

The City of Boston is in the process of changing from a weak housing market (slack demand) to a strong market (excess demand) in some, though not all, neighborhoods. The many factors contributing to this situation have already been presented and analyzed. Simplistic efforts to reverse these forces at the local level will prove futile. In the absence of a national commitment to control inflation, overhaul the existing tax structure and/or switch to a system of public rather than privately owned housing, banning condominium conversions entirely and/or reverting to the system of rent controls initiated in the early 1970's would be counterproductive. On the other hand, the consequences of allowing the market to overheat by taking no action are equally as grave. Permitting the conversion and highly leveraged sales at inflated prices of more units than normal homeowner demand can absorb simply encourages speculation by those who would treat housing as a commodity rather than a resource.

Market trends were unfavorable toward urban housing during the past decade. Not only was demand slack but heating costs as well as many other operating expenses soared. Unlike the rest of the region, values on Boston's 1-4 family stock barely kept pace with inflation and conventional rental housing failed to pay its investor-owners anywhere an adequate return. Their plight was exacerbated in Boston by high property taxes and a system of rent controls that did not routinely adjust rents across the board or by building class but relied instead on an unsuccessful case by case review.

New demand is now entering the City, but resuming conventional construction is proving more difficult than expected. Lack of affordable land, tight mortgage credit, soaring construction and financing costs and anti-growth sentiments expressed through a tangle of regulations are cited as barriers to

new construction. More fundamentally, however, as long as people feel that existing housing can be obtained that is better and cheaper, the rent levels necessary to support unassisted development will simply be viewed as unacceptable. The new urbanites would now rather pay \$600 and \$700 a month, significantly above the rents paid by present tenants, to buy within the existing stock than pay the same amount in rent which would be required to induce new construction.

People whose incomes are keeping pace with inflation are being pushed into higher income tax brackets. As a result, all their housing decisions are much more tax sensitive. Many who would like to live in cities want to own. Ownership is explicitly encouraged over renting by federal tax policy which confers substantial benefits on homeowners. This policy has the effect of luring away the best part of the landlord's market: those tenants who could afford to pay the higher rents needed to cover increased operating costs. Not surprising, condominium ownership has emerged as a significant new tenure form for these new households and an escape hatch for owners working to get out of the rental business.

So far only about 4,500 existing rental accommodations, located primarily in close-in structures of less than 12 units have been converted. To date, condominium conversions have, for the most part, impacted a small, fairly resourceful segment of the population: young, transient and upwardly mobile renters. Their response to conversions has varied widely: some buy their unit willingly, others buy under duress, and still others buy another condo or a house. On the other hand, some move and find a similar rental in the same area, while others move to a higher rent unit in the same neighborhood, or to a different neighborhood, or even leave the area altogether. There are also

instances of doubling up. In short, there are still quite a number of different options and so far, because the numbers have been small, the negative impact of conversions on the overall supply of low, moderate and middle-income housing has been minimal compared to other, more significant factors like inflation and abandonment eroding this stock.

Most tenants who have stayed put have been sheltered from the full impact of inflation and the strong surge in regional housing demand. In effect, many have been subsidized by their landlords, even though they may not have realized it. However, anyone who now moves discovers that the market has radically changed. The market is tight and housing costs are up. With the media focus on displacement, it is easy for renters to conclude that their diminished choices are caused by condo conversions even though that is only a minor contributor to the overall housing crunch.

Nevertheless, for a limited number of tenants without the resources -- physical and emotional, as well as financial -- hardships are already very severe. Years of general holding back rent increases do not help them now. If these households can be equitably identified, rental assistance programs should be adopted to serve them.

Basically however, Boston needs more quality housing in locations acceptable to the new wave of households. A logical response to the new housing demand is to convert as many non-residential structures as possible in the next several years into housing in areas of high demand. There are now many underutilized manufacturing and office structures suitable for conversion. In addition, there are still a significant number of institutional properties in Back Bay and vacant publicly owned land in the South End where the market is sufficiently strong to support the cost of producing new units. It is important to channel the flood of new households that want to live and invest

in Boston away from the moderately priced rental apartments. The City and the BRA have recognized this and are already taking steps to encourage the development of new units to appeal to the upper end of the market. Following a five year period during which fewer than one hundred new rental units were built in the City, 1980 marks the construction start of some 800 luxury rental units in two separate downtown developments (Devonshire Towers and The Greenhouse). In addition construction is well along on Phase I of the Charlestown Navy Yard (360 units of luxury rentals). When complete the Navy Yard will contain over one thousand units where none previously existed. Plans for the creation of housing out of vacant lofts and underutilized manufacturing and commercial space in the downtown and along Fort Point Channel and the development of the North Station area should further direct new demand away from the existing inventory.

At the same time, rents in the moderate rental stock must generally be allowed to rise to the point where this housing will be improved by the market, since enough suitable subsidies to improve it at present rents are unlikely to become available. Public policy must allow for rent increases and some conversions. Since there will be some natural attrition of existing moderate income rental households, the pace of conversion of the existing stock should be monitored and if necessary regulated to prevent undue hardship upon them. The complex market forces that now favor the City favor homeowners more than tenants and landlords, and the young over families and the elderly. However, if all else is equal, they also favor those already here over those who seek entry. Simple attempts to fight these forces will prove counter-productive, but once they are understood a transformation of Boston might emerge that could prove beneficial to all current residents.

## IX. RECOMMENDATIONS

Boston is at a critical juncture in terms of defining a housing strategy for the 1980's. Any policy decisions must be based on an understanding of the underlying changes taking place in the housing market and of the factors that are shaping these new trends, specifically, changing demographics and lifestyles, energy awareness and continuing inflation interacting with federal tax incentives. In many respects Boston's housing dilemma is similar to that of other revitalizing cities. Trends at the local level are shaped by these outside forces, many of which are beyond the means of local government to change. The City's immediate challenge lies in how to allocate in an equitable manner the housing resources it now has and those it can bring onto the market in a timely fashion when there exists a mismatch between supply and demand. This requires distinguishing between those trends over which the City can successfully exert some control and those which must ultimately be altered at the Federal level, if in fact government intervention is even capable of doing so. It further requires identification of behavior patterns in the housing system and adoption of measures that encourage what is beneficial and discourage what is harmful.

The analysis of Boston's market and effects of conversion activity to date indicates that its most negative aspect has been the loss of single room housing accommodations (i.e., lodging houses). Aside from this phenomenon, incidences of violation of tenant/purchaser rights and severe hardship resulting from a forced move have been quite limited. Condo purchases have largely been by owner occupants and have often resulted in substantial upgrading of a badly deteriorated stock. The City should not attempt to reverse or stifle this phenomenon. Indications are that we may now be on the verge of a wave of "as-is" conversions for whom there is not an identified resident market, with the exception of the existing tenants. Sensitive public policy requires

further study in this emerging area to determine what the possible negative repercussions of such activity will be and how they can be minimized.

#### Overview

There is general agreement that, with very few exceptions, new apartment buildings will not be sufficiently profitable to be worthwhile for a developer without government assistance. Even the luxury rentals being built in Boston require subsidized interest rates, mortgage insurance and 121A tax assurances. Often those inducements are even insufficient to stimulate construction without providing rent supports to the tenant. In effect the future profitability of rental housing depends on strengthening the middle income segment of the market. Federal policymakers must first decide whether moderate and middle income households should be assisted in becoming homeowners and thus benefiting from all its attendant advantages (some of which will have to be recast if they are in fact to be of any advantage to people in lower tax brackets), or if they should be provided for in the rental market. If the latter, the next question becomes whether the public or private sector can/should house them.

As a matter of practical consideration, the City does not have the luxury of waiting to see what action is taken at the Federal level with regard to the rental housing dilemma. The City's challenge lies in deciding how to best match the components of demand with available supply and to work at the margin, encouraging beneficial and discouraging harmful behavior. It can do so by expanding supply, reducing excess demand, and dissipating demand. In the meantime, action can be taken to minimize the disruption or anxieties caused by condo conversions, and to regulate the process to protect against consumer abuses. Obviously, condominium policy cannot be discussed in a vacuum, but

rather it must be part of an overall housing policy. The following recommendations reflect this fact and address the broader housing issues which have made condominium conversions such a controversial issue.

#### Federal Initiatives

Certain assumptions about Federal initiatives in the area of housing have been made as a backdrop for the recommended City initiatives. The most basic of these assumptions is that the Federal government is unlikely to encourage in any significant way a shift from private ownership of housing--at least during the next decade when demographic pressures will be most acute. The second assumption is that, during the same time frame, inflation will continue to be one of the most visible barriers to new construction and homeownership. A corollary to this is that increasing attention will be focused on the issue of housing affordability. The third assumption is that the American dream of homeownership is as pervasive as ever and will continue to dominate housing policy considerations at all levels. At best, some of the tax benefits that have traditionally accrued only to owners might be expanded to renters or some of the benefits might be revamped to discourage buying patterns which disrupt normal market activity. Based on these assumptions, the City should lobby for a series of actions at the Federal level aimed at the following: (1) encouraging the preservation of existing rental units for those who cannot or choose not to buy, (2) increasing the supply and affordability of unsubsidized rental stock, and (3) increasing the supply and affordability of housing for owner-occupancy. Among the recommended Federal initiatives are the following:

(1) Increasing tax benefits for tenants and/or landlords. Either way improved profitability might lessen the incentive to convert rental apartments to condominiums, and might increase the number of new rental units being constructed.

(2) Complementing the above change with continued support for subsidized mortgages (e.g., tandem plan) to encourage construction and rehabilitation of rental stock and direct rental assistance for eligible tenants in private market housing.

(3) Amending the tax code to discourage conversion of rental property by third parties, a process which results in inflated prices and consequently fewer tenant purchases. This could take the form of an "excess profits" tax (on rental to condominium sales but not on condominium resales). An "excess profits" tax could also be used as an anti-speculation measure if applied to the sale of all properties by non-resident owners in cases where resale takes place within five years without substantial rehabilitation.

(4) Allowing flexibility in the issuance of tax exempt municipal bonds or other funding sources where the goal is preservation of rental stock.

(5) Allowing seven and a half (7½) percent tandem plan financing (as authorized under the Emergency Housing Act of 1974) for housing development only of specific types or on specific sites (e.g., urban area infill sites, adaptive reuse of non-housing properties in urban areas, new two-four family homes, etc.) This would be a radical departure from previous programs which have favored new single family construction. It would give revitalizing urban areas an opportunity to accommodate their new demand without displacing existing residents. By offering special incentives for the construction of two-four unit structures over single family ones, the program would gradually replenish the supply of rental units in one of the most desirable situations, the owner occupied structure. This could be coupled with tax exempt bonding for construction if current high interest rates continue.



### State Initiatives

The most appropriate role for the State to assume would be one of assuring that conversions comply with existing regulations designed to insure consumer and environmental protection rather than adding a multiplicity of new regulation. One way of monitoring the quality of a conversion would be by requiring that the building be up to code at the time the master deed is filed or, in the case of substantial renovation, before an individual unit is sold. A specified homeowner's warranty might be another means. Passage of the Uniform Condominium Act would be the most appropriate step toward insuring consistency and quality in condominium conversions. This would also guarantee consistent minimum protections and fair treatment of existing tenants, in the absence of any more stringent local ordinances. The second major area that demands State attention is a re-evaluation of existing laws and regulations (State Sanitary Code, for example) to determine which regulations present obstacles to new construction, adaptive reuse and housing fix-up.

If the State determines that condominium conversions are adversely affecting a particularly needy population, it would be appropriate to indemnify those household's with Section 8--or other rental assistance from the allocation of such subsidies available to the Executive Office of Community Development.

In the absence of any Federal "anti-speculation" or "excess profits" legislation, the state could assess such a tax, in effect recapturing some of the anticipated Federal income tax benefits.

### Local Initiatives

Regulation of real estate is traditionally a local matter, and local government should be in the best position to determine the nature of its problems and the appropriate public response. The following policy recom-

recommendations, therefore, reflect Boston's particular situation. They recognize the fact that City policy can do little to change national trends and that ill conceived measures that attempt to do so are inappropriate and probably unnecessary.

Boston must attempt to gauge how its housing markets will respond to these external pressures in the absence of any regulation and, if necessary, judiciously use incentives, disincentives and clearly defined regulation to insure that the market activity accommodates the dual public objective of population expansion/diversification with protection of existing residents.

Local actions should attempt to do the following: (1) expand the supply, (2) reduce excess demand, (3) dissipate demand, and (4) minimize the disruption when a property does change form of ownership. The City, on some fronts, is already moving in this direction. Among the initiatives the City should consider are the following, categorized by the goal each might help to accomplish:

Expansion of Supply through Preservation of the Existing Supply and Incentives for New Additions

(1) Address the problem of unrealistic rent expectations, by adopting a system of routine annual or semi-annual rent adjustments for all units based on increased operating costs and inflation.

(2) Tax rental property solely on the basis of income capitalization. This would insure that a property's tax bill would reflect its earning potential (rental income minus operating expenses). Where rent levels are comparatively low, for whatever reason, the tax assessment would similarly be lower.

(3) Encourage the purchase of smaller multi-family properties, say four to six units, by owner occupants who will preserve rental units.

This would require private action such as modification of traditional lending practices as well as public action such as exemption from rent controls.

(4) Encourage market production of sales housing in high demand areas through adaptive reuse of commercial or institutional properties and rehab of vacant or tax delinquent parcels. Possible means of doing so are one-step shopping for permits, variances, approvals, and abatements, or through forbearance or forgiveness of back taxes (the latter requiring State cooperation). Similarly encourage production of market rental housing from non-housing uses where provisions of the Tax Act of 1976 (five year write-off of rehab expenses on eligible National Register or historic district properties) make such production attractive. On a smaller scale similarly facilitate conversions of single family homes to respond to current housing demand, e.g., allow mother-in-law apartments.

(5) Provide energy fix-up incentives to encourage responsible owners to continue serving long term tenants.

(6) Impose "recapture taxes" on properties which receive public monies/ benefits for one purpose--to develop or improve rental housing, for example--if that property is sold within a given period for some other use such as condominiums, for example.

(7) Provide incentives to converters of larger rental complexes to keep, say ten (10%) percent of their units as rentals for a well-defined, needy group of existing or neighborhood residents (e.g., long term, low income elderly or handicapped) using either the Section 8 existing rental assistance program, tax abatements or protection against reassessment on those units to insure that income keeps pace with future operating costs.

(8) Restore viability of public housing, including the rehabilitation through cost effective approaches of the 4,600 vacant units within that inventory.

(9) Encourage expansion of subsidized congregate (i.e., single room), facilities in those areas--Back Bay, Beacon Hill, South End--where lodging houses are most vulnerable. This could be achieved by having one developer undertake the moderate rehabilitation of a number of lodging houses with the room rents subsidized under the Section 8, or similar rental assistance program. It could also be accomplished through the recycling of non-housing uses in these neighborhoods into single rooms. In either case Federal subsidies would be required but the City could initiate the effort.

#### Reduce Excess Demand

(1) The most significant action the City can take to reduce excess demand would be to disallow the eviction of existing tenants in cases where the purchaser (or his immediate family) is not going to occupy the unit. This would be an expansion of the present policy governing rent controlled units, but would not apply to buildings undergoing substantial rehabilitation.

(2) In order to establish that there is a real resident demand for converted units offered for sale "as is" or with only minor cosmetic improvement, the City should not allow evictions to begin until a specified percentage of the units (say, 25%) have been sold or otherwise committed. This protection would be in addition to the existing notification period.

Dissipate Demand

(1) Efforts to bolster interest in areas of weak market demand should be intensified. The City should provide incentives to homesteaders or developers for the rehabilitation or reuse of tax delinquent, or substandard properties. Since such properties are often in areas of weakest demand and are unoccupied, their fix-up would serve a dual function--neighborhood improvement and adding to the inventory without displacement. The key to accomplishing anything with these difficult cases lies in the City's ability to do something about past and future tax liability.

(2) Incentives should also be structured to encourage the adaptive reuse of non-residential properties in the strong downtown market.

Minimize Disruption Upon Conversion

(1) Passage of the City's one year notice period was a significant step toward easing the transition of a property from rental to condominium ownership. While that is a considerably longer period than most municipal ordinances allow, it should not unduly burden an owner who is laying the groundwork with existing tenants, making necessary improvements, working out a sensitive management plan for the transition period, and lining up permanent financing. It allows the tenant a reasonable period to make a decision about whether to buy or move, to negotiate more favorable terms should he/she decide to buy, to present alternatives to moving to the developer (e.g., retain a number of rental units as part of the common area to be owned) or simply to adjust to the reality of a move. In the case of low-income elderly and handicapped households, the two year period provides an opportunity to seek out available subsidies and/or

relocation assistance. The ordinance is no guarantee to tenants that they can continue to occupy their units as rentals indefinitely. Its purpose is not to postpone the day of reckoning, but rather to allow time to adjust to a change in living arrangement.

(2) The City should monitor the process of notification very closely over the coming two to three months to determine whether owners are sending out "intent to convert" notices in nervous anticipation of increased regulation or whether such notices--if being sent out at all--reflect genuine plans to convert. If anything other than the latter, the process should be modified to insure that a real commitment to convert is in place (e.g., documented by the filing of a master deed and plans), before such notices can go out. It is, of course, necessary that the Rent Control Administration's role be understood by all parties as that of monitor of the process and not advocate for any party.

(3) The City should consider reducing the notification period for properties involving substantial rehabilitation where the owner provides relocation assistance for income eligible handicapped and elderly. Such assistance might take the form of subsidizing the difference between what those tenants had been paying and what they would be paying in their new unit for a period up to the two year protection they are presently granted.

(4) In the case of "as is" sales or those involving only minor fix-up, existing tenants should be guaranteed the right of first refusal on both the building itself, if offered for sale, and their individual unit.

Other

The best way to insure that the City can provide an adequate level of services for all its residents is through an equitable assessing process that reflects substantially increasing property values. The practice of not updating property assessments has been a long standing problem in Boston which is now affecting the condominium market. The City should seize the opportunity offered by the revaluation process to develop a comprehensive tax policy which would, among other things, address how to participate in the increases in market value, thus expanding its tax base.

## FOOTNOTES

1. Background data on housing, employment and population was drawn from earlier published works of the Boston Redevelopment Authority Research Department.
2. For this and all future comparisons, unless otherwise noted, the term "downtown" will include the following neighborhoods: Back Bay, Beacon Hill, North End, Waterfront, South End, Fenway, and St. Botolph.
3. There are other tax advantages enjoyed by homeowners. One is the tax free imputed income from owner occupied housing. Owners in effect rent to themselves but are not required to report or pay tax on this derived value even though they are allowed the offsetting expense of interest taxes. Other advantages deal with capital gains upon the sale of a home: (1) the relatively low rate at which such gains are taxed; (2) the deferral of any such gains if another, more expensive home is purchased within eighteen months; (3) the exclusion of capital gains at death or on home sales of persons aged 55 and over. An excellent report on the role of these and other Federal tax play is encouraging homeownership (in cities this is synonymous with condo conversion), and concurrently how they are related to the difficulties in rental housing is Congressional Report #80-71E, HD 7287 U.S.C. Condominium Conversions: Possible Changes in Federal Tax Laws to Discourage Conversions and Assist Rental Housing, prepared in April, 1980 by E. Richardson Bourdon.
4. Despite the initial outcry over twenty (20%) percent of the non-student tenants at Town Estates have already purchased their units, and more are expected to do so in the near future.
5. Department of Housing and Urban Development, Office of Policy Development and Research, Displacement Report, prepared in partial response to the requirements of Section 902 of the Housing and Community Development Amendments of 1978 (February, 1979).
6. Department of Housing and Urban Development, Office of Policy Development Research, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes and Impacts, prepared for Congress in accordance with the provision of Section 109(b) of the Housing and Community Development Amendments of 1979 (June, 1980).
7. The compendium of Federal, state, and local initiatives contained in this chapter was drawn largely from two recent national studies on condominium conversions. The first is the previously referenced HUD report. The second study, Condominium Conversion Controls, prepared by Jennifer Silver and Cathy Shreve is an Information Bulletin of the Community and Economic Development Task Force of the Urban Consortium under contract to HUD (1979). In addition, this study provides an excellent discussion of the relationship between conversions and displacement.
8. Urban Consortium, Condominium Conversion Controls.
9. Ibid.



APPENDIX A

RESIDENTIAL CONDOMINIUM SUMMARY

Year	City Total		Back Bay		Beacon Hill		North End/ Waterfront		South End		Other*	
	Cases	Units	Cases	Units	Cases	Units	Cases	Units	Cases	Units	Cases	Units
1969	1	8	1	8	0	0	0	0	0	0	0	0
1970	2	20	1	13	1	7	0	0	0	0	0	0
1971	7	219	4	155	2	40	0	0	1	24	0	0
1972	13	145	8	100	4	28	0	0	0	0	1	17
1973	23	573	13	165	4	25	3	190	0	0	3	193
1974	28	505	16	380	8	65	2	47	2	13	0	0
1975	16	236	7	176	8	44	1	16	0	0	0	0
1976	22	179	16	109	3	12	1	9	0	0	2	49
1977	21	171	9	67	7	32	4	24	0	0	1	48
1978	60	897	31	220	14	120	9	304	1	5	5	248
1979	155	1,626	58	505	31	219	15	194	20	121	31	587
TOTAL:	348	4,579	164	1,898	82	592	35	784	24	163	43	1,142

\* See accompanying listing by street address

## APPENDIX A

Residential Condominiums as of December 31, 1979

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
Arborway Condo <sup>1</sup>	121	JP	1973	42
2 Arlington Street	6	BB	1979	343
19 Arlington Street	18	BB	1974	66
8-12 Battery Street	19	WF	1978	184
9-15 Battery Street	10	WF	1979	359
35 Beacon Street	5	BH	1973	33
36 Beacon Street	8	BH	1978	151
41 Beacon Street	8	BH	1978	148
49 Beacon Street	11	BH	1975	91
51 Beacon Street	5	BH	1972	12
61 Beacon Street	4	BH	1979	289
79 Beacon Street	5	BH	1977	127
80 Beacon Street	11	BH	1978	170
90 Beacon Street	7	BH	1979	233
94 Beacon Street	5	BH	1974	72
95 Beacon Street	9	BH	1974	75
103 Beacon Street	7	BB	1977	129
119 Beacon Street	6	BB	1979	260
120 Beacon Street	8	BB	1973	38
121 Beacon Street	6	BB	1979	330
149 Beacon Street	6	BB	1978	159
154 Beacon Street	5	BB	1977	134
155 Beacon Street	5	BB	1979	319
157 Beacon Street	5	BB	1979	211
160 Beacon Street	8	BB	1975	79
163 Beacon Street	12	BB	1979	348
166 Beacon Street	7	BB	1973	29
167 Beacon Street	12	BB	1979	12
172 Beacon Street	10	BB	1977	140
177 Beacon Street	4	BB	1979	242
179 Beacon Street	5	BB	1979	222
180 Beacon Street	114	BB	1971	10
182 Beacon Street	14	BB	1972	13
186 Beacon Street	6	BB	1973	31
190 Beacon Street	7	BB	1976	102
192 Beacon Street	5	BB	1978	183
194 Beacon Street	5	BB	1974	56
206 Beacon Street	5	BB	1976	108
210 Beacon Street	4	BB	1979	279
221 Beacon Street	7	BB	1978	172
226 Beacon Street	8	BB	1973	25
228-30 Beacon Street	16	BB	1973	28
232 Beacon Street	8	BB	1972	22
234 Beacon Street	9	BB	1978	195
236 Beacon Street	28	BB	1972	20
242 Beacon Street	10	BB	1973	44

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
244-6 Beacon Street	20	BB	1979	333
250 Beacon Street	21	BB	1973	26
251 Beacon Street	6	BB	1979	217
254-56 Beacon Street	9	BB	1974	74
255 Beacon Street	23	BB	1971	4
260 Beacon Street	13	BB	1970	2
265 Beacon Street	8	BB	1979	236
269 Beacon Street	9	BB	1976	113
270 Beacon Street	10	BB	1979	229
271 Beacon Street	9	BB	1979	342
279-81 Beacon Street	19	BB	1979	246
280 Beacon Street	33	BB	1973	24
283 Beacon Street	4	BB	1979	259
286 Beacon Street	12	BB	1974	53
292 Beacon Street	7	BB	1978	145
295 Beacon Street	29	BB	1974	71
304 Beacon Street	4	BB	1979	272
320 Beacon Street	5	BB	1976	118
327 Beacon Street	5	BB	1979	344
329 Beacon Street	5	BB	1979	273
330 Beacon Street	81	BB	1974	52
346 Beacon Street	10	BB	1979	
351 Beacon Street	8	BB	1976	96
398 Beacon Street	5	BB	1978	142
404 Beacon Street	6	BB	1976	115
413 Beacon Street	6	BB	1979	204
417 Beacon Street	3	BB	1979	355
445 Beacon Street	4	BB	1978	176
452 Beacon Street	7	BB	1978	167
458 Beacon Street	6	BB	1978	200
478 Beacon Street	12	BB	1979	254
486-8 Beacon Street	18	BB	1979	253
520 Beacon Street	35	BB	1974	59
416 Belgrade	23	ROS	1979	315
28 Brentwood	16	AB	1979	287
19 Brimmer Street	5	BH	1975	88
Brimmer Chambers <sup>2</sup>	34	BH	1978	177
Broadlawn Park	145	WR	1978	156
Broadlawn Commons	110	WR	1979	296
Cabot Estates <sup>3</sup>	40	JP	1976	103
9 Cazenove Street	4	BV	1979	304

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
48-50 Chandler Street	6	SE	1979	250
108 Chandler Street	3	SE	1979	350
122 Chandler Street	5	SE	1979	237
124 Chandler Street	5	SE	1979	230
142 Chandler Street	5	SE	1979	231
73-75 Charles Street		BH	1979	312
100 Charles Street	12	BH	1978	169
113 Charles Street	3	BH	1976	116
116 Charles Street	3	NE	1978	82
6 Charter Street	3	NE	1978	160
33 Charter Street	7	NE	1978	154
1 Chestnut Street	12	BH	1972	23
20 Chestnut Street	6	BH	1973	36
33 Chestnut Street	5	BH	1977	117
39 Chestnut Street	6	BH	1979	227
44 Chestnut Street	7	BH	1972	15
71 Chestnut Street	3	BH	1976	114
76 Chestnut Street	5	BH	1979	295
109 Chestnut Street	5	BH	1975	89
51-53 Clarendon Street	6	SE	1979	332
5 Colliston; 78 Forsyth Rd.	17	AB	1979	306
102 Commercial Street	5	WF	1979	251
106 Commercial Street	4	WF	1979	205
110-112 Commercial Street	6	WF	179	256
120 Commercial Street	24	WF	1979	325
166 Commercial Street	5	WF	1977	130
170 Commercial Street	5	WF	1977	136
328 Commercial Street	23	WF	1979	310
Commercial Wharf	94	WF	1978	171
19 Commonwealth Avenue	4	BB	178	165
23 Commonwealth Avenue	4	BB	1976	98
28 Commonwealth Avenue	5	BB	1976	106
30 Commonwealth Avenue	4	BB	1979	276
40 Commonwealth Avenue	12	BB	1977	125
43 Commonwealth Avenue	5	BB	1974	47
46 Commonwealth Avenue	10	BB	1978	181
56-60 Commonwealth Avenue	31	BB	1974	76
61 Commonwealth Avenue	8	BB	1973	34
65 Commonwealth Avenue	15	BB	1972	16
90 Commonwealth Avenue	25	BB	1974	60
114 Commonwealth Avenue	5	BB	1979	213
116 Commonwealth Avenue	5	BB	1978	168

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
165 Commonwealth Avenue	5	BB	1977	131
167 Commonwealth Avenue	9	BB	1975	85
169 Commonwealth Avenue	5	BB	1973	37
174 Commonwealth Avenue	10	BB	1979	282
175 Commonwealth Avenue	5	BB	1979	321
177 Commonwealth Avenue	9	BB	1979	314
178 Commonwealth Avenue	8	BB	1979	270
179 Commonwealth Avenue	4	BB	1978	147
180 Commonwealth Avenue	34	BB	1974	55
184-190 Commonwealth Avenue	50	BB	1979	311
191 Commonwealth Avenue	16	BB	1973	30
192 Commonwealth Avenue	8	BB	1971	6
203 Commonwealth Avenue	10	BB	1979	351
226 Commonwealth Avenue	5	BB	1979	206
232 Commonwealth Avenue	3	BB	1975	92
233 Commonwealth Avenue	12	BB	1976	94
236 Commonwealth Avenue	4	BB	1974	70
250 Commonwealth Avenue	23	BB	1979	327
252 Commonwealth Avenue	6	BB	1979	280
261 Commonwealth Avenue	11	BB	1978	197
263 Commonwealth Avenue	8	BB	1978	152
273 Commonwealth Avenue	12	BB	1978	180
293-95 Commonwealth Avenue	30	BB	1978	187
303 Commonwealth Avenue	5	BB	1977	132
308 Commonwealth Avenue	13	BB	1977	137
311 Commonwealth Avenue	15	BB	1976	95
318 Commonwealth Avenue	5	BB	1978	144
325 Commonwealth Avenue	7	BB	1978	154
342 Commonwealth Avenue	10	BB	1979	268
349 Commonwealth Avenue	5	BB	1979	299
405 Commonwealth Avenue	10	BB	1979	338
1157-77 Commonwealth Avenue	42	AB	1979	286
Copley Condo <sup>4</sup>	79	BB	1974	50
17 Cordis St.; 5 Cordis Ave.	6	CHA	1979	328
Corey Gardens <sup>5</sup>	28	AB	1979	228
53-5-7 Cummings Road	8	AB	1979	219
2-4-6-8 Dartmouth Street	4	SE	1979	284
330 Dartmouth Street	17	BB	1979	278
24 Denny Street	6	DOR	1979	313
5 Durham Street	5	ST.B	1979	238
16 Durham Street	2	ST.B	1979	300
East Coast Condo <sup>6</sup>	23	WF	1978	161

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
39 Englewood Avenue	31	AB	1979	320
126 Englewood Avenue	6	AB	1979	288
3 Fairfield Street	8	BB	1979	353
21 Fairfield Street	6	BB	1979	354
29 Fairfield Street	5	BB	1979	357
Farragut Road Court <sup>7</sup>	27	SB	1979	202
50 The Fenway	5	FEN	1979	309
52 The Fenway	6	FEN	1979	326
114 The Fenway	17	FEN	1972	17
23 Fleet Street	13	NE	1978	141
45 Fleet Street	10	NE	1979	274
75 Fulton Street	13	WF	1978	174
99 Fulton Street	36	WF	1979	234
113 Fulton Street	5	WF	1979	317
120 Fulton Street	39	WF	1978	175
6 Gloucester Street	4	BB	1978	166
8 Gloucester Street	17	BB	1973	43
13-15 Gloucester Street	8	BB	1976	111
17 Gloucester Street	9	BB	1978	158
20 Gloucester Street	8	BB	1969	1
16 Grey Street	8	SE	1974	65
10 Hancock Street	4	BH	1977	135
11 Hancock Street	4	BH	1979	349
18 Hancock Street	5	BH	1979	345
24-26 Hancock Street	14	BH	1979	240
28 Hancock Street	4	BH	1979	281
32-34 Hancock Street	17	BH	1974	68
33-35 Hancock Street	8	BH	1979	245
36 Hancock Street	14	BH	1974	49
73 Hancock Street	3	BH	1979	207
287-95 Hanover Street	5	NE	1973	39
440 Hanover Street	22	NE	1979	324
51 Hemenway Street	9	FEN	1979	356
4-6 Henchman Street	9	NE	1973	46
16-10 Henchman Street	30	NE	1973	46
7 Hereford Street	9	BB	1978	193
14 Hereford Street	4	BB	1975	78
20 Hereford Street	4	BB	1974	48
40 Hereford Street	6	BB	1978	199

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
M111 Condo <sup>8</sup>	30	BH	1971	5
Independence Condo <sup>9</sup>	20	BB	1979	337
Jamaica Plain Condo <sup>10</sup>	16	JP	1979	208
14 Joy Street	3	BH	1979	303
19 Joy Street	4	BH	1972	14
20 Joy Street	4	BH	1978	190
35-36-37-38-39 Lawrence Street	24	SE	1971	9
Lennon Court	41	SB	1978	162
Lewis Wharf	155	WF	1973	45
1 Louisburg Square	5	BH	1979	261
1 Marlborough Street	5	BB	1979	251
12 Marlborough Street	3	BB	1979	241
22 Marlborough Street	8	BB	1976	100
28 Marlborough Street	4	BB	1979	255
39 Marlborough Street	4	BB	1976	107
57 Marlborough Street	11	BB	1979	358
65 Marlborough Street	6	BB	1979	221
75 Marlborough Street	5	BB	1979	262
85 Marlborough Street	8	BB	1979	318
86 Marlborough Street	9	BB	1978	182
121 Marlborough Street	5	BB	1976	112
127 Marlborough Street	5	BB	1972	18
129 Marlborough Street	5	BB	1977	123
131 Marlborough Street	7	BB	1979	249
136 Marlborough Street	4	BB	1979	244
137 Marlborough Street	10	BB	1971	7
146 Marlborough Street	10	BB	1979	285
171 Marlborough Street	6	BB	1978	155
175 Marlborough Street	5	BB	1978	153
182 Marlborough Street	9	BB	1976	90
193 Marlborough Street	3	BB	1979	329
195 Marlborough Street	4	BB	1974	63
220-4 Marlborough Street	18	BB	1972	19
230 Marlborough Street	4	BB	1978	186
232 Marlborough Street	10	BB	1973	41
234 Marlborough Street	6	BB	1975	84
236 Marlborough Street	5	BB	1974	62
242 Marlborough Street	5	BB	1976	104
252 Marlborough Street	5	BB	1978	173
254 Marlborough Street	3	BB	1972	11
258 Marlborough Street	9	BB	1979	335
276 Marlborough Street	9	BB	1972	21
319 Marlborough Street	5	BB	1978	196
342 Marlborough Street	2	BB	1978	188

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
371 Marlborough Street	4	BB	1978	189
378 Marlborough Street	7	BB	1979	322
380 Marlborough Street	3	BB	1976	101
436 Marlborough Street	3	BB	1979	258
Marquette Condo <sup>11</sup>	9	SB	1979	340
14-18 Medfield Street	12	KEN	1979	290
Monterey Gardens <sup>12</sup>	69	WR	1973	32
22 Monument Square	4	CH	1979	225
50 Monument Square	9	CH	1977	110
26 Mt. Vernon Street	10	BH	1973	40
35 Mt. Vernon Street	5	BH	1979	263
40-42 Mt. Vernon Street	13	BH	1978	179
61 Mt. Vernon Street	7	BH	1970	3
67 Mt. Vernon Street	9	BH	1974	54
71 Mt. Vernon Street	5	BH	1975	80
88 Mt. Vernon Street	17	BH	1979	347
93 Mt. Vernon Street	6	BH	1979	212
97 Mt. Vernon Street	20	BH	1979	277
101 Mt. Vernon Street	5	BH	1979	215
165 Mt. Vernon Street	4	BH	1973	35
33 Myrtle Street	5	BH	1974	67
57 Myrtle Street	11	BH	1979	297
82 Myrtle Street	10	BH	1979	339
84 Myrtle Street	3	BH	1979	224
132 Myrtle Street	5	BH	1979	346
18 Newbury Street	5	BH	1976	99
243 North Street	10	NE	1978	143
248-54 North Street	10	NE	1977	119
14 North Square	4	NE	1974	61
80 Nottinghamill Road	3	AB	1973	27
10 Otis Place	10	BH	1971	8
81-83 Phillips Street	2	BH	1974	64
13-15 Pinckney Street	8	BH	1979	252
23 Pinckney Street	6	BH	1979	352
29 Pinckney Street	4	BH	1979	210
31 Pinckney Street	5	BH	1979	302
41 Pinckney Street	5	BH	1978	157
50 Pinckney Street	5	BH	1975	86
62 Pinckney Street	4	BH	1975	83



<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
65 Pinckney Street	4	BH	1978	191
93 Pinckney Street	6	BH	1976	97
111 Pinckney Street	4	BH	1977	128
Pondview Condo <sup>13</sup>	24	JP	1979	247
Prince Condo <sup>14</sup>	43	WF	1974	58
54-56 Prince Street	14	NE	1979	341
105 Prince Street	5	NE	1979	218
152-8 Prince Street	16	NE	1975	93
Reservoir Gardens <sup>15</sup>	50	AB	1978	164
48 Rutland Square	3	SE	1979	305
88 St. Botolph Street	5	ST. B	1979	293
117 St. Botolph Street	4	ST. B	1979	267
121 St. Botolph Street	5	ST. B	1978	146
133 St. Botolph Street	9	ST. B	1979	271
195 St. Botolph Street	4	ST. B	1979	223
6 Salem Street	5	NE	1979	248
57-61 Salem Street	21	NE	1979	360
50 Seymour Street	16	ROS	1979	323
31 Snow Hill Road	4	NE	1979	216
South Beach Condo <sup>16</sup>	10	DNTN	1979	239
42 South Russell	3	BH	1979	265
Stoney End Condo <sup>17</sup>	31	SE	1979	336
15 Temple Street	5	BH	1978	150
27 Temple and Ridgeway Lane	10	BH	1979	316
33 Temple Street	7	BH	1979	201
36 Temple Street	5	BH	1978	185
38 Temple Street	4	BH	1977	126
23 Tileston Street	4	NE	1977	122
Town Lyne Condo <sup>18</sup>	40	AB	1977	124
Town Lyne House <sup>19</sup>	78	AB	1979	283
679 Tremont Street	5	SE	1974	51

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Year Recorded</u>	<u>Assessor's Number</u>
20 Union Park	5	SE	1978	178
26 Union Park	5	SE	1979	243
49 Union Park	4	SE	1979	214
52 Union Park	5	SE	1979	301
Union Wharf	90	WF	1978	192
Vendome	137	BB	1975	77
3-5 Walnut Street	6	BH	1978	149
4 Walnut Street	9	BH	1979	264
6 Walnut Street	5	BH	1977	133
8 Walnut Street	2	BH	1978	163
12 Walnut Street	5	BH	1977	138
82-84 Waltham Street	10	SE	1979	203
55-57 Warren Avenue	6	SE	1979	220
61 Warren Avenue	4	SE	179	209
163 W. Canton Street	5	SE	1979	232
185 W. Canton Street	4	SE	1979	331
19 West Cedar Street	6	BH	1979	266
44 West Cedar Street	3	BH	1975	87
58 West Cedar Street	3	BH	1978	198
64 West Cedar Street	7	BH	1974	69
5 West HM Place	4	BH	1974	69
236 West Newton	3	SE	1979	334
244 West Newton	3	SE	1979	307
12 Yarmouth Street	4	SE	1979	298

Specific addresses of those condos known by a different name:

1. 461-495 Arborway;  
399 Forest Hills Street;  
96-100 Morton Street

2. 112 Pinckney Street

3. 175-203 Perkins Street

4. 265-275 Dartmouth Street;  
142-144 Newbury Street

5. 63 Corey Road;  
106,110,114 Evans Street

6. 122-132 Fulton Street;  
237 North Street

7. 125-135-145 Farragut Road;  
1-9-17-25 Twomey Street

8. 70-72 Mt. Vernon Street;  
27 Chestnut Street

9. 282 Newbury Street

10. 70 Jamaica Way

11. 838 East Broadway

12. 5-7-9-11-15-17 Cass St.

13. 18 Pond Street

14. 45-63 Atlantic Avenue

15. 1982-1992 Commonwealth Avenue

16. 116-118-122 South Street

17. 76-84 Berkeley Street;  
53-55 Chandler Street

18. 76-80-84-88 Strathmore Rd.;

18.(cont.)  
35 Chiswick Road;  
60 Sutherland Road

19. 121 Tremont Street

Residential Condominiums Recorded January-July, 1980  
(Preliminary Count)\*

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Assessor's Number</u>
106 Appleton Street		SE	
34 Austin Street	3	CN	363
76 Battery March Street		DNTN	
29 Bay State Road		BB	
31 Bay State Road	4	BB	372
48 Beacon Street	19	BH	388
92 Beacon Street		BH	
109 Beacon Street	6	BB	379
229 Beacon Street	4	BB	367
249 Beacon Street		BB	
285 Beacon Street		BB	
340 Beacon Street	4	BB	368
354 Beacon Street		BB	
414 Beacon Street		BB	
461 Beacon Street		BB	
916 Beacon Street	5	KEN	386
134-140 Beach Street	7	DNTN	385
90-2-4 Chandler Street	9	SE	384
60 Charlesgate		BB	
118 Commonwealth Avenue		BB	
207 Commonwealth Avenue	11	BB	391
254 Commonwealth Avenue		BB	
306 Commonwealth Avenue	5	BB	378
3 Durham Street	5	ST.B	364
7 Durham Street	5	ST.B	377
15 Fayette Street		BV	
112-14 Fulton Street		WF	
38 Hanson Street	3		371
35 High Street	4		362
43 Juliette Street		DOR	
68 Marlborough Street		BB	
119 Marlborough Street	10	BB	369
167 Marlborough Street		BB	
226 Marlborough Street	5	BB	390
272 Marlborough Street	9	BB	383
347 Marlborough Street	3	BB	382
350 Marlborough Street	5	BB	365
365 Marlborough Street	6	BB	380
376 Marlborough Street	6	BB	389
382 Marlborough Street		BB	
22 Medfield Street	6	KEN	370
51 Mt. Vernon Street		BH	
48 Pinckney Street	5	BH	376
70 Poplar Street		ROS	

743

<u>Name</u>	<u># of Units</u>	<u>Neigh- borhood</u>	<u>Assessor's Number</u>
114-122 Riverway		KEN	
94 St. Botolph Street		ST.8	
200 St. Botolph Street	6	ST.8	361
76-86 South Street		DWTH	
9 Temple Walk	5	BH	375
Town Estates	353	AB	387
604 Tremont Street		SE	
609 Tremont Street	4	SE	373
613 Tremont Street	4	SE	366
617 Tremont Street	4	SE	374
688 Tremont Street		SE	
41 Union Park	5	SE	381
23 Unity Street			
461 Washington Street		AB	

\* March-July activity based on information reported in Banker & Tradesman.

## APPENDIX B

Methodology

The trends in condominium development in Boston have gone through three distinct phases and the current activity is ushering in a fourth phase. For analytical purposes, however, the 1978 and 1979 activity was split up into two phases. It was anticipated at the outset of the study that such a division would result in roughly equal divisions of about a thousand units each. The burst of activity in the last quarter of 1979, however, resulted in 1,600 units coming onto the market that year. As a result the four phases were as follows: (1) activity from 1969-1973 representing the first 965 units to come onto the market; (2) 1,091 units added from 1974 through 1977; (3) 897 units added in 1978; and (4) 1,626 units in 1979. Prior tenant and purchaser profiles and estimates of direct displacement were developed within this context. Data were aggregated and analyzed from a number of public records, then cross checked for accuracy with personal follow-up. Such research documents the extent and nature of displacement due to the conversion of rental housing; economic or social benefits associated with such activity; and general characteristics of the condominium market in Boston. It is not intended to take the place of more extensive personal surveying and outreach efforts to learn about the impact on specific affected households--both buyers and non-buyers. Rather, because it has quantified and stratified the condominium universe by type of structure being converted--by whom, for whom and at whose expense--and has tracked this activity over a decade's time, this study should be viewed as the basis for such future efforts.

Public Records Examined

1. City of Boston Assessing Records;
2. Boston Rent Control Administration Records;
3. R.L. Polk Directory;
4. City of Boston Police and Voter Listings;
5. Sales transactions and mortgage activity recorded at the Suffolk County Registry of Deeds as reported in Banker and Tradesman;
6. City of Boston Licensing Board Records.

In addition, extensive personal interviewing was undertaken and reference made to earlier surveys (U.S. Census, 1970; Hart Poll, 1978; Consensus Survey, 1979).

Displacement Count

For each of the above four phases, the entire condominium universe was identified. From that were subtracted those units which involved no displacement, i.e., those created through new construction, recycling of non-housing uses, conversion of single family homes, buildings vacant for an extended period, etc. Units created through the conversion of active lodging houses were also subtracted at this point, as displacement due to this phenomenon was addressed separately. Data on number of

existing tenants who bought their units were available in between 63% and 83% of the cases in each phase. The number of potential displacees for the last half of 1979 was extrapolated from earlier conversions of similar types of property.

The term "potential direct displacement" is used throughout since it has not been established that all the moves prompted by or coincidental with conversion activity are involuntary. Typically the affected stock has experienced an annual tenant turnover of 30%. Further, tenants renting in one building undergoing conversion frequently choose to buy a condominium in another building. Thus, even calling such moves "potential displacement" overstates the disruption caused by conversion.

#### Rates of Turnover and Owner Occupancy

The annual rate of turnover was established by calculating the number of resales as a percent of all occupied condominium units with the exception of those still held by the developer/converter.

For example, the annual rate of turnover in a 10 unit building which has been a condominium for one year would be 10% if one owner sells his/her unit at the end of that year; if no one sells after one year, but one person sells after year two, the annual turnover rate would be 5%.

The rate of owner occupancy was established by comparing ownership records (Assessing Department) with occupancy based on a mail-box survey. To gauge turnover, only condominium developments which have existed for two or more years were counted. Occupancy calculations were based on development in existence one year or more. Data were obtainable on over 80% of all such developments for these calculations.

#### Tenant/Buyer Profile

After the condominium universe was divided into the four time frames, activity within each of these periods was stratified by type of housing being converted (old luxury, new luxury, older moderately priced, older low rent, etc.); types of rehab or improvements made prior to sale; and geographic location. On the basis of these factors, a representative 40% sample was drawn to determine:

- number and age of tenants purchasing;
- number and age of prior tenants not purchasing;
- tenure of purchasers and non-purchasers (i.e., who had been there three years or more); and
- very general socio-economic profile based on police listing of purchasers, non-purchasers.

This data was based on the public records noted above and validated by extensive spot checking.

#### Change in Tax Base

The change in tax base as a result of condominium conversion and development is not an estimate, but rather the actual change documented by

comparing 1979 assessments with those prior to conversion for all properties converted through 1978 and noting which properties were previously tax exempt. Changes which occurred during the intervening years from year of conversion until 1979 as a result of changing assessing practices have not been factored in nor have abatements pending. The increase in tax base resulting from the 1979 activity is estimated.

Because property is taxed in October on the basis of its use (value) as of January 1, there can be up to a two year delay between conversion and first tax payment based on the new assessment. For example, condominiums developed and assessed in calendar year 1979 will be billed as condos for the first time in October 1980 for the 1981 fiscal year.

#### Trends in Rent and Price Levels

As indicated in the text, these are estimates based on a sampling of representative properties and reasonably reflect the broader universe in the professional judgement of the author.

## APPENDIX C

## CITY OF BOSTON

IN THE YEAR NINETEEN HUNDRED AND SEVENTY-NINE

## AN ORDINANCE

REGULATING EVICTIONS FOR CONDOMINIUM CONVERSIONS



Be it ordained by the City Council of Boston, as follows:

SECTION 1. That the City of Boston Code Ordinance 10 be, and hereby is, amended by adding thereto the following:

## CHAPTER 4. CONDOMINIUM CONVERSION REGULATION

## SECTION 200. Preamble

Whereas, A serious public emergency exists with respect to the housing of a substantial number of citizens of Boston; and

Whereas, The deterioration and demolition of existing housing and an insufficient supply of new housing have resulted in a substantial and critical shortage of safe, decent, and reasonably priced rental housing accommodations; and

Whereas, Home ownership creates an interest in real estate which tends to contribute to the maintenance and preservation of housing and to an increase in real estate taxes which has a salutary effect on the City and its people, and the City Council should, therefore, encourage an increase in such ownership or at least should avoid discouraging it; and

Whereas, Individual ownership of multiple unit housing accommodations offers a number of advantages when compared to an unattached one-family house, not the least of which is a considerable saving in energy used for heating, and the City Council should, therefore, encourage an increase in such ownership or at least should avoid discouraging it; and



## AN ORDINANCE

Whereas, At present in the City there is a great interest in and a significant amount of conversions of multiple unit rental housing occupied by tenants to condominium units occupied by individual owners thereof; and

Whereas, Notwithstanding the general good accomplished by such increase in home ownership, many people of limited means, particularly the elderly, are suffering thereby in that they have difficulty in obtaining alternative rental housing at prices which they can afford when evicted for condominium conversion; and

Whereas, The untoward effects of condominium conversion evictions on tenants can be adequately dealt with by providing potentially displaced tenants with sufficient time to examine the housing market, evaluate available housing alternatives, formulate future housing plans, secure any necessary financing and decide whether to purchase the condominium unit or relocate; and

Whereas, This emergency cannot be dealt with solely by the operation of the private rental housing market nor solely by Chapter 15 of the Ordinances of 1975, as amended, and unless evictions for condominium conversions are additionally regulated and controlled, such emergency and the inflationary pressures and displacement resulting therefrom will produce serious threats to the public health, safety, and general welfare of the citizens of Boston;

Now, therefore, pursuant to the authority vested in it by law, including

## AN ORDINANCE

without limitation, Article 2, as amended, and Article 47 of the Amendments to the Constitution of the Commonwealth of Massachusetts and Chapter 797 of the Acts of 1969, as amended by Chapter 863 of the Acts of 1970 and by Chapter 843 of the Acts of 1971, be it ordained by the City Council of the City of Boston as follows:

SECTION 201. Definitions. When used in this ordinance, unless the context otherwise requires, the following terms shall have the following meaning:

a. Board: the rent board as established under Section 2(a-d) of Chapter 15 of the Ordinances of 1975, as amended.

b. Condominium conversion eviction: an eviction of a tenant by a landlord for the purpose of removing such tenant from a housing accommodation in order to facilitate the initial sale and transfer of legal title to that housing accommodation as a condominium unit to a prospective purchaser or an eviction of a tenant by any other person who has purchased a housing accommodation as a condominium unit when the tenant whose eviction is sought was a resident of the housing accommodation at the time the master deed for the property wherein said housing accommodation is located was recorded pursuant to the provisions of Chapter 183A of the General Laws.

c. Condominium unit: a unit of a condominium as that term is defined in Chapter 183A of the General Laws.

d. Housing accommodation: any building, structure, or part thereof or land appurtenant thereto, or any other real or personal property rented or

## AN ORDINANCE

offered for rent for living or dwelling purposes, together with all services connected with the use or occupancy of such property, not including the following:

I. housing accommodations in which the United States or the Commonwealth of Massachusetts or any authority created under the laws thereof either owns, or operates, or finances or subsidizes or insures the mortgage thereon, or regulates the individual rents thereof.

II. housing accommodations in any building or structure containing no more than two dwelling units or containing three dwelling units, one of which is occupied by the owner thereof as his permanent residence; provided, that two or more adjoining buildings or structures under common legal or beneficial ownership shall constitute a single building or structure for this purpose; and provided, further, that no building or structure shall be considered occupied by the owner thereof unless all beneficial owners occupy one or more dwelling units therein as their permanent residence.

III. housing accommodations constructed, created by conversion from a non-housing use to a housing use, or substantially rehabilitated so as to constitute the equivalent of new construction after December 1, 1968, with respect to conventionally financed housing accommodations, and after January 1, 1972, with respect to housing accommodations described in

## AN ORDINANCE

paragraph (d)(1) above.

IV. housing accommodations in cooperatives.

V. housing accommodations in hotels, motels, inns, tourist homes, and rooming or boarding housings which are occupied in the majority by transient guests for a period of less than fourteen consecutive days.

e. Landlord: the individual who holds title to any housing accommodation in any manner including, but not limited to, a partnership, corporation, or trust. For the purposes of this ordinance, the rights and duties of the landlord hereunder shall be the obligation of anyone who manages, controls, or customarily accepts rent on behalf of the landlord.

f. Rental housing agreement: an agreement, verbal, written or implied, between a landlord and a tenant for use on occupancy of a housing accommodation or for housing services.

g. Tenant: any person entitled under the terms of a rental housing agreement to the use and occupancy of any housing accommodation.

h. Vacancy decontrolled housing accommodation: a housing accommodation which is exempt from the provisions of Chapter 15 of the Ordinances of 1975, as amended because it meets the requirements of section 1(e) (vi) thereof.

Section 202 Scope. All condominium conversion evictions from housing accommodations as defined herein in the City of Boston shall be governed by the eviction control provisions of Chapter 15 of the Ordinances of 1975, as amended, as modified by the provisions of this ordinance.

SECTION 203. Presumption. For purposes of this ordinance, any action to recover possession of a housing accommodation shall be presumed by the Board to be a

## AN ORDINANCE

condominium conversion eviction where any one or more of the following has occurred:

- (a) any dwelling unit in any building or structure in which the housing accommodation is located has been sold as a condominium unit; or
- (b) a master deed for the building or structure in which the housing accommodation is located for which recovery of possession is sought has been duly recorded pursuant to the provisions of Chapter 183A of the General Laws; or
- (c) a master deed for the building or structure in which the housing accommodation is located for which recovery of possession was sought is duly recorded pursuant to the provisions of Chapter 183A of the General Laws within one hundred and eighty days after an action is brought to recover such possession; or

(d) any tenant of any housing accommodation in the building or structure wherein the housing accommodation is located has received any notice required by the provisions of Section 204 of this ordinance; provided, however, that a landlord may seek to recover possession of a housing accommodation when any of (a), (b), (c), or (d) occurs for the purposes other than a condominium conversion when the landlord files, under the pains and penalties of perjury, an affidavit with the Board stating that such eviction is not for the purpose of converting the housing accommodation to a condominium.

## AN ORDINANCE

Section 204. No person shall bring any action to recover possession of a housing accommodation for the purpose of a condominium conversion until the later of the expiration of the rental housing agreement or one year has elapsed from the date the tenant of such housing accommodation receives a written notice of termination of his tenancy, provided, however, that in the case of a housing accommodation occupied, in whole or in part, by any tenant who has reached the age of sixty-two or over on or before the date said notice is received or who is physically handicapped as defined by Section 13A of Chapter 22 of the General Laws of the Commonwealth of Massachusetts as amended by Chapter 528 of the Acts of 1974 and the total income in the calendar year immediately preceding the date of the notice of all the tenants of that housing accommodation is less than eighty percent of the median income for the area as set forth in regulations promulgated from time to time by the United States Department of Housing and Urban Development pursuant to section 8 of the Housing Act of 1937 as amended by the Housing and Community Development Act of 1974 and calculated pursuant to said regulations, two years from such date has elapsed.

The burden of proving qualification with respect to age or handicap and income shall rest with the tenant.

All notices given pursuant to this section shall be personally served upon the tenant or mailed to the tenant by certified mail, return receipt requested, and shall advise the tenant of the rights and procedures available under

this ordinance, including, if applicable, a statement of such tenant rights and procedures available under the rules of the Board governing recovery of a housing accommodation in order to convert it to a condominium as adopted on 29 June 1979, as amended July 27, 1979, pursuant to the provisions of Chapter 15 of the Ordinances of 1975, as amended.

No action to recover possession of a housing accommodation for condominium conversion shall be effective unless a master deed for the building or structure in which the housing accommodation is located is duly recorded pursuant to the provisions of Chapter 183A of the General Laws of the Commonwealth of Massachusetts prior to or within the one year or two year time period specified in this section for notice to tenants of such housing accommodations. Except with respect to vacancy decontrolled housing accommodations, upon expiration of the notice period as provided herein, the landlord must provide proof satisfactory to the board that he has complied with the provisions of Chapter 15 of the Ordinances of 1975, as amended, and the rules of the Board as adopted on 29 June 1979, as amended July 27, 1979, pursuant thereto governing recovery of a housing accommodation in order to convert it to a condominium. If the board finds that the proof is valid and in compliance with the provisions of this ordinance, a certificate of eviction shall be issued.

## AN ORDINANCE

With respect to all housing accommodation, except vacancy decontrolled housing accommodations, which are voluntarily vacated by the tenant thereof after receipt of the notice required by this section but prior to the expiration of the notice period specified therefor, the Board shall not grant a certificate of vacancy decontrol pursuant to the provisions of Chapter 15 of the Ordinances of 1975, as amended, unless the landlord has recorded a master deed pursuant to Chapter 183A of the General Laws of the Commonwealth of Massachusetts for the building or structure in which the vacated housing accommodation is located.

If a landlord of a vacancy decontrolled housing accommodation seeks to recover possession of such housing accommodation for any reason other than to effect a condominium conversion prior to the expiration of the notice period as provided in this section, and where appropriate, he filed with the Board the affidavit prescribed by said section, no certificate of eviction shall be required.

Upon expiration of the notice period as provided in this section, no landlord of a vacancy decontrolled housing accommodation shall be required to obtain a certificate of eviction from the Board as a prerequisite to recovering possession of such vacancy decontrolled housing accommodation in order to effect a condominium conversion, provided, however, that such landlord shall file with said Board an affidavit, under the pains and penalties of perjury, that he has complied with the requirements imposed by this section.

Section 205. Powers and Duties. The Board shall have the power and duty to enforce the provisions of this ordinance. Certified copies of all policies, rules, and regulations shall be forwarded to the City Clerk who shall forthwith forward them to the City Council, in the case of regulations in existence, within 10 days of the effective date of this ordinance, and in the case of regulations promulgated after the effective date of this ordinance within 10 days of the promulgation thereof."

## AN ORDINANCE

SECTION 206. Whoever willfully violates any provision of this ordinance or whoever knowingly makes any false statement or affidavit to the board created by Chapter 15 of the Ordinances of 1975, as amended, shall be punished by a fine of not more than five hundred dollars or by imprisonment for not more than ninety days or both; provided, however, that in the case of a second or subsequent offense, such person shall be punished by a fine of not more than three thousand dollars or imprisonment for not more than one year or both.

The District Court for the Judicial District within which the housing accommodation is located and the Housing Court of the City of Boston shall severally have concurrent jurisdiction over all such actions and complaints.

The Superior Court and the Housing Court of the City of Boston shall severally have jurisdiction to restrain by injunction any violation of this ordinance.

SECTION 207. This ordinance shall become effective immediately upon passage and shall remain in effect until December 31, 1982, or until a prior determination is made by ordinance that the present rental housing emergency no longer exists.

SECTION 208. The provisions of this ordinance are severable, and if any of its provisions shall be held unconstitutional or otherwise invalid by any court of competent jurisdiction, the decision of such court shall not affect or impair any of the remaining provisions.



## AN ORDINANCE

Section 209. Transitional Provisions. Upon the effective date of this ordinance, all applications for a certificate of eviction for condominium conversion, whether pending or future, shall be governed by the provisions of this ordinance, and all notices required hereunder shall be given to tenants after the effective date hereof.

Section 210. Nothing in this ordinance shall be construed as giving the Board any additional powers other than those specifically set forth herein and those exercised by the Board in accordance with Section 205 and Section 2(C) of Chapter 15 of the Ordinances of 1975 as amended as they relate to the eviction of tenants for the purposes of condominium conversion; nor shall this ordinance be construed as conferring upon the Board any powers to hire additional staff unless any such hiring is expressly authorized by further ordinance.

SECTION 2. That this ordinance, as amended, shall be published by the action of the Council in passing the same.

In City Council, December 12, 1979. Passed -  
yeas five, nays four.

In City Council, December 26, 1979. Amended,  
yeas seven, nays two.

Barry T. Hynes  
City Clerk.

Approved, December 27, 1979

Kevin H. White  
Mayor.

\*As Amended 1/29/80

## \*CONDOMINIUM CONVERSION EVICTION REGULATION

## SECTION 1. PURPOSE.

The purpose of this regulation is to implement the provisions and purposes of City of Boston Code Ordinance 10, Chapter 4 which modifies Chapter 15 of the Ordinances of 1975, as amended, with respect to condominium conversion evictions in the City of Boston.

## SECTION 2. SCOPE.

This regulation applies to all condominium conversion evictions from rent controlled and vacancy decontrolled housing accommodations in the City of Boston.

## SECTION 3. DEFINITIONS.

When used in this regulation, unless the context otherwise requires, the following terms shall have the following meanings:

A. Board:

The Boston Rent Board as established under Section 2(a-d) of Chapter 15 of the Ordinances of 1975, as amended.

B. Condominium Conversion Eviction:

- 1) An eviction of a tenant by a landlord for the purpose of removing such tenant from a housing accommodation in order to facilitate the initial sale and transfer of legal title to that housing accommodation as a condominium unit to a prospective purchaser, or
- 2) An eviction of a tenant by any person who has purchased a housing accommodation as a condominium unit when the tenant whose eviction is sought was a resident of the housing accommodation at the time the master deed for the property wherein the housing accommodation is located was recorded pursuant to the provisions of Chapter 183A of the General Laws. An eviction is not a condominium conversion eviction as defined in this subsection where the tenant who is the subject of the eviction did not reside in the housing accommodation for which recovery is sought until after the master deed for the building was duly recorded, or
- 3) An eviction of a tenant by a landlord where any presumption of condominium conversion eviction in Section 4 applies and the landlord has failed to overcome such presumption in accordance with the provisions of Section 5.

C. Condominium Ordinance:

City of Boston Code Ordinance 10, Chapter 4, also referred to as Chapter 37 of the Ordinances of 1979 - An Ordinance Regulating Evictions for Condominium Conversions.

D. Condominium Unit:

A unit of a condominium as that term is defined in Chapter 183A of the General Laws.

E. Executive Director:

The executive director of the Board as defined in Section 1(d) of Chapter 15 of the Ordinances of 1975, as amended.

F. Forms/Affidavits:

Forms and affidavits as approved by the Executive Director and which further the provisions of this regulation.

G. Master Deed:

The legal document by which the condominium is submitted to the provisions of Chapter 183A of the General Laws of Massachusetts, and any amendment to said document. This legal document, which must be recorded in the Suffolk County Registry of Deeds, legally converts the property (land and buildings) into a condominium and designates condominium units for individual ownership as well as common areas for joint ownership. A description of the land and each building, a set of floor plans, and a statement of the purpose for which the building and each of the units are intended, among other relevant information, are included in this document.

H. Physically Handicapped Tenant:

- 1) A tenant confined to a wheelchair, or
- 2) A tenant who, because of the use of braces or crutches or because of the loss of a foot or a leg, or because of an arthritic, spastic, pulmonary or cardiac condition, walks with difficulty or insecurity, or
- 3) A tenant who, due to a brain, spinal or peripheral nerve injury, suffers from faulty coordination or palsy, or
- 4) A tenant who is blind or whose sight is so impaired that, functioning in a public area, he is insecure or exposed to danger, or
- 5) A tenant whose hearing is so impaired that he is unable to hear warning signals, or
- 6) A tenant whose mobility, flexibility, coordination and perceptiveness are significantly reduced by aging.

I. Rent Controlled Housing Accommodation:

Any housing accommodation subject to rent and eviction controls under Chapter 15 of the Ordinances of 1975 of the City of Boston, as amended, not including housing accommodations subsidized under Section 202, 221(d) or 236 of the National Housing Act, as amended.

J. Rent Control Ordinance:

City of Boston Ordinances of 1975, Chapter 15, as amended by City of Boston Ordinances of 1979, Chapter 29.

K. Section:

Sections of this regulation.

L. Serve/Service:

Notification of any form, notice or affidavit required to be served under this regulation. Service shall be made in the following manner:

- 1) by constable, or
- 2) certified mail, return receipt requested, or
- 3) in hand with an impartial witness, or
- 4) any other method of personal service capable of being proven.

M. Total Income:

The total income for all tenants of a rent controlled or vacancy decontrolled housing accommodation from all sources during the calendar year immediately preceding the date of receipt of the notice terminating tenancy for condominium conversion referred to in Section 7 of this regulation, excluding income which is temporary, non-recurring or sporadic. Total income shall include, but not be limited to, the following:

- 1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
- 2) Net income from operation of a business or profession;
- 3) Interest, dividends, and net income of any kind from real or personal property;
- 4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
- 5) Payments in lieu of earnings, such as unemployment compensation and severance pay;
- 6) Welfare assistance payments;
- 7) Periodic and determinable allowances, such as alimony and child support payments, and payments nominally to a minor for his support and controlled for his benefit by another;
- 8) Regular contributions or gifts received from persons not residing in the housing accommodation;
- 9) All regular pay, special payments, and allowances received by a member of the Armed Forces.

For the definition of temporary, non-recurring or sporadic income see HUD Regulation 24 CFR Sec. 860.403(n)(1-7).

N. Vacancy Decontrolled Housing Accommodation:

A housing accommodation which is exempt from the provisions of Chapter 15 of the Ordinances of 1975, as amended, because it meets the requirements of Section 1(e)(vi) thereof and any applicable regulations.

In addition to the definitions contained herein, see the definition section of the Condominium Ordinance.

SECTION 4. PRESUMPTION OF CONDOMINIUM CONVERSION EVICTION.

An eviction shall be presumed to be a condominium conversion eviction where any of the following has occurred:

A. Sale of a Unit:

Any dwelling unit in the building or structure in which the housing accommodation is located for which recovery of possession is sought has been sold as a condominium unit. For the purpose of this presumption a housing

accommodation has been sold as a condominium unit where a binding purchase and sale agreement has been executed.

**B. Master Deed:**

A master deed for the building or structure in which the housing accommodation is located for which recovery of possession is sought has been duly recorded pursuant to the provisions of Chapter 183A of the General Laws.

**C. Master Deed Within 180 Days:**

A master deed for the building or structure in which the housing accommodation is located for which recovery of possession is sought is duly recorded pursuant to the provisions of Chapter 183A of the General Laws within one hundred and eighty days after the action is brought to recover such possession.

**D. Notice:**

Any tenant of any housing accommodation in the building or structure wherein the housing accommodation is located for which recovery of possession is sought has received any notice required by the provisions of Section 204 of the Condominium Ordinance. Notices which raise this presumption include the one or two year notice terminating tenancy for condominium conversion and the offer to sell to tenants in rent controlled housing accommodations.

**SECTION 5. OVERCOMING THE PRESUMPTION OF CONDOMINIUM CONVERSION EVICTION.**

**A. Rent Controlled Housing Accommodations Only:**

- 1) A landlord seeking to recover possession of a rent controlled housing accommodation for purposes other than condominium conversion shall:
  - a) File with the Board a completed Landlord Affidavit Concerning Condominium Conversion (Form C-1) whenever a Certificate of Eviction is sought, regardless of whether a presumption applies. This Affidavit (Form C-1) is not required to be filed where the eviction is for condominium conversion.
  - b) Accompany any Application for Certificate of Eviction (Form E-1) with the Landlord Affidavit Concerning Condominium Conversion (Form C-1) and serve such Affidavit on the tenant and file it with the Board in the same manner and simultaneously with the Application for Certificate of Eviction (Form E-1).
  - c) Submit a completed Landlord Affidavit Concerning Condominium Conversion (Form C-1) under the pains and penalties of perjury which Affidavit shall include, among other relevant information, a statement of the applicable presumptions under Section 4, if any, and a statement of a valid other reason for eviction under the Rent Control Ordinance.
- 2) Failure to file with the Board or serve on the tenant a Landlord Affidavit Concerning Condominium Conversion (Form C-1) with an Application for Certificate of Eviction (Form E-1) shall result in dismissal of the Application for Certificate of Eviction (Form E-1) as incomplete.

- 3) Where the landlord has overcome the presumption of condominium conversion, if any, such landlord shall then prove the reason for eviction under the Rent Control Ordinance in order to obtain a Certificate of Eviction.

**B. Vacancy Decontrolled Housing Accommodations Only:**

- 1) Where one or more of the presumptions set forth in Section 4 apply, a landlord shall:
  - a) File with the Board and serve on the tenant a completed Landlord Affidavit Concerning Condominium Conversion (Form C-1) at least fourteen (14) days before commencement of an action to recover possession in court.
  - b) Submit a completed Landlord Affidavit Concerning Condominium Conversion (Form C-1) under the pains and penalties of perjury which Affidavit shall include, among other relevant information, a statement of any applicable presumptions, and a statement of the other reason for eviction, which other reason shall be put forth in good faith, be of a legally sufficient and material nature to overcome the presumption of condominium conversion eviction, and not be in conflict with the provisions and purposes of the Condominium Ordinance.
- 2) Failure to file the Landlord Affidavit Concerning Condominium Conversion (Form C-1) with the Board or serve a copy on the tenant before the commencement of the action to recover possession in court shall result in dismissal of such action.
- 3) Filing the Landlord Affidavit Concerning Condominium Conversion (Form C-1) with the Board or serving a copy on the tenant during the fourteen (14) day period before commencement of an action to recover possession in court shall result in dismissal of the action unless the landlord proves that such untimely filing or service did not substantially prejudice the defense of such action in court.
- 4) Where the landlord has overcome the applicable presumption of condominium conversion eviction as set forth in Section 4, the burden shifts to the tenant to prove in court that the purpose of the eviction is condominium conversion and that the stated other reason for eviction is not true or is of such an insufficient nature as to be put forth for the purpose of circumventing the provisions and purposes of the Condominium Ordinance.

**SECTION 6. EVIDENCE INDICATING CONDOMINIUM CONVERSION EVICTION.**

**A. Evidence:**

Where the burden has shifted to the tenant to prove condominium conversion eviction, the presumptive factors indicating condominium conversion eviction as set forth in Section 4 as well as the following factors, among other relevant factors, shall be considered in determining whether an eviction is a condominium conversion eviction as defined in Section 3(b):

- 1) A master deed for the building or structure in which the housing accommodation sought to be recovered is located has been prepared but not yet recorded or is in the process of being prepared.

- 2) There is a dramatic and disproportionate increase in the rent for the affected housing accommodation as compared to market rents for comparable dwelling units in the area.
- 3) The landlord has prepared or is in the process of preparing purchase and sale agreements in order to sell any housing accommodation in the building or structure in which recovery is sought as a condominium unit.
- 4) The landlord has advertised for sale as a condominium unit any housing accommodation in the building or structure in which the tenant whose eviction is sought resides.
- 5) The landlord has shown to prospective purchasers any housing accommodation in the building or structure in which the tenant whose eviction is sought resides for the purpose of selling it as a condominium unit.
- 6) The landlord has made any communication, written or oral, to any tenant residing in the building in which the affected tenant resides, indicating that the landlord is converting or is planning to convert the building into a condominium.
- 7) The landlord has had any unit of a housing accommodation in the building or structure for which recovery is sought measured or inspected to facilitate the sale of the unit as a condominium unit.
- 8) The landlord has had the land surveyed, an engineering study done, or architectural plans drawn up, for the purpose of converting into a condominium the building or structure in which the housing accommodation sought to be recovered is located.
- 9) The landlord has taken any other preparatory action to facilitate the sale and transfer of legal title of any housing accommodation in the building or structure in which the tenant whose eviction is sought resides, as a condominium unit..

8. Consideration of Evidence/Effect:

1) An action to recover possession of a housing accommodation shall be a condominium conversion eviction where, notwithstanding any Landlord Affidavit to the contrary, a tenant proves by a preponderance of the evidence that the totality of the circumstances giving due regard to the factors set out in Section 6(A) above, among others, demonstrate condominium conversion eviction as defined in Section 3(B) and that any other reason put forth by the landlord for the eviction is untrue, legally insufficient, or in conflict with the purposes and provisions of the Condominium Ordinance.

2) Upon proving under this Section that an action to recover possession is a condominium conversion eviction; such action shall be dismissed. Compliance with the provisions and purposes of the Condominium Ordinance and this regulation shall be required in any future action which may be brought to recover possession for condominium conversion of the same housing accommodation.

SECTION 7. GENERAL REQUIREMENTS FOR CONDOMINIUM CONVERSION EVICTIONS FROM ALL HOUSING ACCOMMODATIONS.

A landlord seeking to evict a tenant of a rent controlled or vacancy decontrolled housing accommodation for condominium conversion shall comply with the following requirements:

A. Notice Terminating Tenancy for Condominium Conversion:

- 1) A landlord may file an Application for Certificate of Eviction with the Board or commence an eviction action in court against a tenant for purposes of condominium conversion eviction provided that:
  - a) one year has elapsed from the date the tenant whose eviction is sought receives a notice terminating tenancy for condominium conversion, except where there is a rental housing agreement with more than one (1) year left to run from the date the notice terminating tenancy for condominium conversion was received by the tenant, then until the notice period elapses at the expiration of such agreement, or
  - b) two years have elapsed, with respect to a tenant who proves qualification for a two (2) year notice under Section 8, from the date the tenant whose eviction is sought receives a notice terminating tenancy for condominium conversion, except where there is a rental housing agreement with more than two (2) years left to run from the date the notice terminating tenancy for condominium conversion was received by the tenant, then until the notice period elapses at the expiration of such agreement.
- 2)
  - a) A notice terminating tenancy for condominium conversion shall be served by the landlord on the tenant who is the subject of a condominium conversion eviction and a copy of such notice shall be filed with the Board within thirty (30) days of service on the tenant.
  - b) Where a landlord has given the notice terminating tenancy for condominium conversion before the effective date of this regulation such landlord shall file the notice with the Board within forty-five (45) days after the effective date of this regulation.
  - c) Failure to file the notice terminating tenancy for condominium conversion with the Board in accordance with the provisions of this Section or serve it on the tenant shall render such notice ineffective.
- 3) The notice terminating tenancy for condominium conversion shall contain, at a minimum, the following information:
  - a) a statement informing the tenant that the landlord intends to convert the building or structure into a condominium;
  - b) a statement informing the tenant that eviction proceedings for condominium conversion cannot be started against the tenant for at least,
    - (i) one year from the time the tenant receives the notice, or until the expiration of any rental housing agreement in effect where such agreement has more than one (1) year left to run from the date the tenant received the notice, and
    - (ii) two years from the time the tenant receives the notice, upon proof by the tenant of qualification for such two year notice under Section 8, or until the expiration of any rental housing agreement in effect where such agreement has more than two (2) years left to run from the date the tenant received the notice.



- c) the name of the tenant and the address, including the apartment number, of the housing accommodation which is the subject of the notice;
- d) the name and address of the landlord or of the landlord's agent.
- 4) No notice terminating tenancy for condominium conversion shall include any language of a coercive, harassing or threatening nature.

**B. Notice of Tenants' Rights  
Condominium Conversion Eviction  
(Form C-2):**

No notice terminating tenancy for condominium conversion as required under Section 7(A) shall be effective unless such notice terminating tenancy is accompanied by a Notice of Tenants' Rights Condominium Conversion Eviction (Form C-2):

**C. Master Deed:**

- 1) A master deed for the building or structure in which the housing accommodation sought to be recovered is located must be duly recorded at the Suffolk County Registry of Deeds prior to or within the one or two year period for notice of termination of tenancy for condominium conversion. A landlord who has recorded a master deed before a notice terminating tenancy for condominium conversion is received by the tenant meets the requirements of this Section.
- 2) Failure to file a master deed prior to or within the one or two year notice period makes such notice terminating tenancy for condominium conversion void, and any action to recover possession for condominium conversion based on such notice is ineffective.

**D. Other Notice:**

A landlord shall provide a tenant who is the subject of eviction with any other legal notice which may be required under the laws of Massachusetts.

**E. Compliance:**

Failure to substantially comply with the requirements of this Section shall result in the denial of a Certificate of Eviction for condominium conversion or dismissal in court of any action to recover possession of a housing accommodation for purposes of condominium conversion.

**SECTION 8. QUALIFICATIONS FOR TWO (2) YEAR NOTICE.**

A tenant qualifies for a two year notice terminating tenancy for condominium conversion upon proving that,

**A. Age and Income:**

Any tenant occupying the housing accommodation which is the subject of a condominium conversion eviction is sixty-two (62) years old or older on the date the notice terminating tenancy for condominium conversion is received AND the total income in the calendar year immediately preceding the date of receipt of the notice for all members of the housing accommodation is less than the maximum income levels set forth in the attached Schedule A as established by regulations of the United States

Department of Housing and Urban Development pursuant to section 8 of the Housing Act of 1937, as amended, or

B. Physical Handicap and Income:

Any tenant occupying a housing accommodation which is the subject of a condominium conversion eviction is a physically handicapped tenant as defined in Section 3(H) on the date the notice terminating tenancy for condominium conversion is received AND the total income in the calendar year immediately preceding the date of receipt of the notice for all members of the housing accommodation is less than the maximum income levels set forth in the attached Schedule A as established by regulations of the United States Department of Housing and Urban Development pursuant to section 8 of the Housing Act of 1937, as amended.

SECTION 9. PROCEDURE FOR TWO YEAR NOTICE QUALIFICATION APPLICABLE TO ALL HOUSING ACCOMMODATIONS.

A. Procedures:

In order to resolve the uncertainty as to whether a two year notice period applies, a tenant who in good faith believes that he qualifies for a two year notice may initiate the following procedure, by the end of seven months from receipt of a notice terminating tenancy for condominium conversion, in order for the Board to determine whether such tenant qualifies for the two year notice period.

- 1) The tenant or an authorized representative of the tenant may file with the Board an Application For Two Year Notice Ruling (Form Q-1), submitted under the pains and penalties of perjury, which states the basis for qualification for a two year notice and is accompanied by relevant and reliable supporting documentary evidence of total income, and either age or physical handicap.
- 2) The Board, having received and processed the application, shall send a copy of the application and any accompanying evidence to the landlord, together with a Landlord's Opposing Statement (Form Q-2).
- 3) Unless the landlord returns a Landlord's Opposing Statement (Form Q-2) requesting a hearing within fifteen (15) days from mailing, the Board shall issue a ruling based solely on the Application and the evidence submitted by the tenant. Where the landlord makes a timely written request for a hearing, a hearing shall be held.
- 4) If the Board finds, based on the evidence, that the facts attested to in the Application are valid and in compliance with the provisions of the Condominium Ordinance and this regulation, the Board shall make a ruling that a two year notice is required and the Application shall be granted. Otherwise, the Application shall be denied. Upon decision, the Board shall notify all parties.
- 5) The Two Year Notice Ruling of the Board shall be binding on the parties in any subsequent Certificate of Eviction proceeding or action to recover possession for condominium conversion.
- 6) Upon a ruling by the Board granting or denying the Application For Two Year Notice Ruling, either party may, within thirty (30) days of the decision, appeal the decision, to the district court in the jurisdiction of which the housing accommodation is located, or to the Housing Court of the City of Boston.

- 7) The seven month qualification procedure period shall not begin until the effective date of this regulation for any notice terminating tenancy for condominium conversion received by the tenant before the effective date of this regulation.
- 8) Where procedures are not fully set forth in this Section, the Board will refer to comparable procedures set forth in the Boston Eviction Regulations. Any other forms which may be necessary to further the provisions of this Section shall be approved by the Executive Director.

**B. Use of Procedure:**

The two year notice qualification procedure, although recommended, is optional. Failure to exercise this option shall not preclude the tenant from raising this issue before the Board at a hearing to determine whether a Certificate of Eviction should be issued for condominium conversion, or in a court action to recover possession for condominium conversion.

**SECTION 10. ADDITIONAL REQUIREMENTS RENT CONTROLLED HOUSING ACCOMMODATIONS ONLY.**

**A. Condominium Conversion Eviction for Use and Occupancy:**

Where a landlord who owns a condominium unit seeks to recover possession of it in good faith for the use and occupancy of himself, or his children, parents, brother, sister, father-in-law, mother-in-law, son-in-law, or daughter-in-law, the landlord must:

- 1) Prove compliance with the applicable provisions of this regulation as part of the Certificate of Eviction procedures. The provisions of this regulation only apply to condominium conversion evictions for use and occupancy where the affected tenants resided in the housing accommodation at or before the time the master deed for the building was duly recorded.
- 2) File a copy of the notice terminating tenancy for condominium conversion, if applicable, with the Application for Certificate of Eviction (Form E-1) and obtain a Certificate of Eviction by complying with the provisions of the Boston Eviction Regulations with respect to evictions under Section 8(a)(viii) of the Rent Control Ordinance.

**B. Condominium Conversion Eviction For Other Just Cause:**

Where a landlord seeks to recover possession of a housing accommodation in order to facilitate the sale and transfer of legal title to that housing accommodation as a condominium unit to a prospective purchaser, the landlord must:

- 1) Prove compliance with the provisions of this regulation, and
- 2) File a copy of the notice terminating tenancy for condominium conversion with the Application for Certificate of Eviction (Forms E-1 and E-1A) and obtain a Certificate of Eviction by complying with the modified provisions of the Condominium Policy of June 29, 1979, as amended, which policy follows:

- a) The requirements set forth in this policy are in addition to those contained in the Boston Eviction Regulations for rent controlled housing accommodations.
- b) Any communication to a tenant regarding the conversion of a housing accommodation to a condominium unit, except for the notice terminating tenancy for condominium conversion and a notice to quit, shall include the following prominent statement: "YOU ARE NOT BEING EVICTED OR BEING ASKED TO VACATE THE PREMISES AT THIS TIME."
- c) A landlord seeking to recover possession of a housing accommodation in order to convert it to a condominium unit shall comply with the following prerequisites to filing for a Certificate of Eviction:
  - 1) Record a master condominium deed, pursuant to Chapter 183A of the General Laws.
  - 2) Make an offer to sell the rent controlled housing accommodation to the tenant presently residing therein, before it is offered to other potential purchasers. This offer must fulfill the following requirements:
    - a) The offer shall be in writing.
    - b) The offer shall name a specific purchase price which must be no higher than the price offered to potential purchasers.
    - c) The offer shall allow the tenant at least thirty (30) days to make a decision, and shall specify the date on which the offer will expire. No application for a Certificate of Eviction will be accepted before the expiration of the thirty (30) day offer.
    - d) The offer shall include a description of the housing accommodation being sold as a condominium unit.
    - e) The information in the offer shall be substantially the same as the information in the master condominium deed.
    - f) The offer shall be given after at least seven months have elapsed from the date the tenant has received the one or two year notice terminating tenancy for condominium conversion. Prior offers are not prohibited but do not fulfill the requirements of this regulation.
  - 3) Make a reoffer to the existing tenant where the original required thirty (30) day offer has expired and the terms of any subsequent offer have substantially changed.
    - a) No reoffer is required where all other terms of the subsequent offer (except for an increase in the purchase price term) remain substantially the same as the terms of the original required offer to the existing tenant.
    - b) Any reoffer shall be made in accordance with the method set out above, as to the original required offer, except that a reoffer shall allow the tenant at least fifteen (15) days rather than thirty (30) days to make a decision on the

reoffer. An Application for a Certificate of Eviction will be accepted before the expiration of the fifteen (15) day reoffer period if the existing tenant has refused the reoffer prior to the expiration of the reoffer period.

- 4) Upon the expiration of the required offer, or reoffer, where applicable, obtain a binding purchase and sale agreement for the housing accommodation which is the subject of the Application.
- d. A landlord seeking to recover possession of a housing accommodation under section 8(a)(x) of the Rent Control Ordinance ("other just cause") shall supply, under the pains and penalties of perjury, the following statements on the Application for a Certificate of Eviction (Forms E-1 and E-1A):
  - 1) An Application for a Certificate of Eviction for condominium conversion (Forms E-1 and E-1A) or other forms approved by the Executive Director containing, among other required information, the following statements by the landlord:
    - a) That there is a duly recorded master condominium deed.
    - b) The book and page number where the master condominium deed can be located at the Registry of Deeds.
    - c) That he has given the required written offer or reoffer, where applicable, to the tenant including date and method of delivery.
    - d) That a binding purchase and sale agreement for the condominium unit has been signed by all necessary parties.
  - 2) Failure to provide any of the above statements will result in the dismissal without prejudice of the Application as incomplete.
- e. An eviction hearing will be scheduled and notices mailed to all affected parties upon the acceptance of an Application for Certificate of Eviction for condominium conversion.
- f. The following evidence is to be produced by a landlord seeking to recover possession of a housing accommodation for condominium conversion:
  - 1) The landlord shall submit into evidence at the eviction hearing:
    - a) Evidence of service of a legally sufficient notice to quit and Form E-0, a notice terminating tenancy for condominium conversion and Form C-2, as well as Forms E-1, E-1A and E-2.
    - b) A copy of the required written offer, or reoffer, where applicable, to the tenant which contains all of the required terms.
    - c) A copy of the duly recorded master condominium deed, along with any amendments and by-laws.
    - d) A binding purchase and sale agreement, with proof of down payment, which meets the following requirements:

- (i) Signed by all the parties to the agreement.
  - (ii) Containing no repurchase or option provisions by the seller.
  - (iii) Setting out dates for financing, closing, and limited extensions.
  - (iv) Statement of total selling price and balance to be financed.
- e) The names of all beneficial owners.
  - f) Relationship of purchaser to seller, if any.
  - g) Testimony by the purchaser of the condominium unit that he intends to purchase the unit for the immediate use and occupancy as a principal place of residence for himself or for members of his family, as defined in Section 8(a)(viii) of the Rent Control Ordinance, except if delay will occur for remodeling purposes. If a delay due to remodeling or construction is anticipated, specify nature of the work and financing and submit copies of all permits, contracts, or other relevant evidence affecting the preparations needed to move in.
  - h) Date purchaser expects to move into condominium unit.
  - i) Evidence from the purchaser of the condominium unit that there is adequate financing to purchase the unit, such as a financial commitment for a mortgage or other financial agreement.
- 2) Failure to produce any of the evidence required in paragraph f(1)(a-i) will result in the denial of a Certificate of Eviction.
- 3) The landlord and purchaser should also be prepared to produce the following evidence at the hearing:
- a) A current list of the status of all housing accommodations and condominium units in the building, identifying:
    - (i) Vacant and occupied housing accommodations; whether rent controlled or vacancy decontrolled; whether subject to rental agreements (e.g. leases, tenancy-at-will).
    - (ii) Units sold as condominiums; date title passed; name of owner; relationship of owner to seller.
  - b) Disposition of vacant units if not sold in near future.
  - c) Policy of relocating tenants to vacant unsold housing accommodations.
  - d) Statement by the purchaser of the following:
    - (i) Location of present residence.
    - (ii) Whether present residence is owned or rented, and if rented, the terms of present rental.
    - (iii) Description of present residence (e.g. size, number of rooms).
    - (iv) Size of present household.
    - (v) Whether he owns or manages other residential property, and if he does, then include a list of such property

- with addresses, number of rental housing accommodations, expectation of vacancies, and whether such housing accommodations are subject to rent control.
- (vi) Data purchaser inspected housing accommodations offered for sale, indicating specific accommodations inspected.
  - (vii) Reason for selecting the housing accommodation which is the subject of this case.

- 4) Failure to produce any of the evidence set forth in paragraph f (3)(a -d) may result in the denial of the Certificate of Eviction.

- g. Where a Certificate of Eviction has been granted by the Board for a good faith condominium conversion, the Board may, within a reasonable time after its decision, review the facts for the eviction. If after review the Board finds that the facts relied upon were not effectuated, the Board may take civil or criminal action against the landlord and/or the purchaser, as specified in the Rent Control Ordinance and the duly promulgated Regulations.

#### SECTION 11. ADDITIONAL REQUIREMENTS FOR VACANCY DECONTROLLED HOUSING ACCOMMODATIONS ONLY.

##### A. Affidavit of Compliance (Form C-3):

After the notice period as set forth in Section 7(A) has elapsed but at least fourteen (14) days before commencing an action to recover possession for condominium conversion a landlord must file a completed original Affidavit of Compliance (Form C-3) with the Board and serve a copy on the tenant.

##### B. Contents (Form C-3):

The Affidavit of Compliance (Form C-3), submitted under the pains and penalties of perjury, shall include, among other relevant information, the following:

- 1) A statement that the notice terminating tenancy for condominium conversion and the Notice of Tenants' Rights (Form C-2) were served on the tenant whose eviction is sought, and a copy of the return of service or other sufficient evidence which proves the date such notices were served.
- 2) A statement that a master deed has been duly recorded for the building or structure in which the affected housing accommodation is located, the date recorded, and the book and page number as assigned by the Suffolk County Registry of Deeds.
- 3) A statement that a copy of the Affidavit of Compliance (Form C-3) was served, or will be served on the tenant within the prescribed time period.

##### C. Further Action:

Upon receipt of the Affidavit of Compliance (Form C-3), the Board may further notify the affected tenant concerning such filing and elicit comments from such tenant as to the accuracy of the information contained in the Affidavit.

##### D. Noncompliance:

Failure of the landlord to file the Affidavit of Compliance (Form C-3) with

the Board and serve a copy on the tenant after the notice period expires but at least fourteen (14) days before commencement of an action to recover possession in court for condominium conversion shall result in dismissal of the action unless the landlord proves that such failure did not result in substantial prejudice to those defending such action.

#### SECTION 12. PRIOR NOTICES.

Any notice required under this regulation given before December 27, 1979, shall be ineffective.

#### SECTION 13. ADMINISTRATIVE REMEDIES.

##### A. Denial of Certificate of Vacancy Decontrol:

Where a rent controlled housing accommodation is voluntarily vacated by the tenant thereof after receipt of a notice terminating tenancy for condominium conversion but before the expiration of the applicable notice period, the Board shall not grant a certificate of vacancy decontrol for that housing accommodation unless the landlord has duly recorded a master deed for the building or structure in which the vacated housing accommodation is located.

##### B. Board Initiated Action:

Upon finding probable cause that a landlord has acted in contravention of the provisions and purposes of the Condominium Ordinance and this regulation, the Board may initiate action, using its subpoena power where appropriate, to determine whether the landlord has contravened the law, and if so, the appropriate remedial action to be taken.

#### SECTION 14. UNLAWFUL ACTION/CRIMINAL PENALTIES.

##### A. Unlawful Action/Harassment:

It shall be unlawful for any person by act or omission knowingly to engage in any conduct tending to deprive a tenant of, or to prevent a tenant from exercising, any right conferred by the Condominium Ordinance, including any such conduct tending to deprive a tenant of the peace, comfort, or enjoyment of a housing accommodation in violation of the Condominium Ordinance and any such conduct amounting to a violation of privacy, harassment, intimidation, threat, or coercion.

##### B. Penalties/False Statements:

Whoever willfully violates this regulation or whoever knowingly makes any false statement or submits any false affidavit to the Board may subject the violator to the penalties as prescribed in Section 206 of the Condominium Ordinance, which penalties include a fine or imprisonment or both.

#### SECTION 15. JUDICIAL CONSTRUCTION.

The provisions of this regulation are severable, and if any provision shall be held unconstitutional or otherwise invalid by any court of competent jurisdiction, the decision of such court shall not affect or impair any of the remaining provisions.

#### SECTION 16. EFFECTIVE DATE/REPEALER.

This regulation shall take effect on April 29, 1980, and shall effect the repeal of and supersede all prior Board policies, rules, and regulations concerning



772

condominium conversion eviction.

VOTED THIS 29th DAY OF APRIL, 1980. Passed yeas, four; nays zero.

  
Ellen Gordon, Chairperson

  
Carol Corcoran, Member

  
Claudette Worthington, Member

  
Robert Banker, Member

A true copy.  
Attest:

SCHEDULE A\*\*  
MAXIMUM INCOME LEVELS

Number of Tenants Per Housing Accommodation	1	2	3	4	5	6	7	8+
*Maximum Income Levels	\$10,850	\$12,400	\$13,950	\$15,500	\$16,500	\$17,450	\$18,450	\$19,400

\*These income levels are subject to change and such revised income levels are effective for purposes of this regulation as of the date the United States Department of Housing and Urban Development promulgates the revised income levels in its regulations. Schedule A maximum income levels apply only to those tenants who received notice terminating tenancy for condominium conversion prior to July 1, 1980.

\*Amended 7/29/80

SCHEDULE A  
(REVISED 7/1/80)  
MAXIMUM INCOME LEVELS

Number of Tenants per Housing Accommodation	1	2	3	4	5	6	7	8+
*Maximum Income Levels	\$12,200	\$13,950	\$15,700	\$17,450	\$18,550	\$19,600	\$20,700	\$21,800

774

\* Schedule A (Revised 7/1/80) maximum income levels apply only to those tenants receiving a notice terminating tenancy for condominium conversion on or after July 1, 1980. These levels shall remain in effect until such date as the United States Department of Housing and Urban Development promulgates revised income levels in its regulations.

(7/1/80 A. 11/1/80)

[Whereupon at 12:45 p.m., the subcommittee adjourned, to reconvene at 9:45 a.m., Wednesday, April 1, 1981.]



## CONDOMINIUM AND COOPERATIVE CONVERSION: THE FEDERAL RESPONSE

### (Part 1—Overview Hearings)

WEDNESDAY, APRIL 1, 1981

HOUSE OF REPRESENTATIVES,  
COMMERCE, CONSUMER,  
AND MONETARY AFFAIRS SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2154, Rayburn House Office Building, Hon. Benjamin S. Rosenthal (chairman of the subcommittee) presiding.

Present: Representatives Benjamin S. Rosenthal, John Conyers, Jr., Eugene V. Atkinson, Stephen L. Neal, Doug Barnard, Jr., Peter A. Peyser, Hal Daub, William F. Clinger, Jr., and John Hiler.

Also present: Representatives Jack Brooks of Texas, Frank Horton of New York, and Elliott H. Levitas of Georgia.

Staff present: Peter S. Barash, staff director; Theodore J. Jacobs, general counsel; Doris Faye Ballard, clerk; and Jack Shaw, minority professional staff, Committee on Government Operations.

Mr. ROSENTHAL. The subcommittee will come to order.

The Chair recognizes Mr. Peyser.

Mr. PEYSER. Thank you, Mr. Chairman.

Mr. Chairman, I move that this subcommittee hearing may be covered by television broadcast, radio broadcast, and still photography, subject to the provisions of the House Rule No. XI, and that such broadcast shall not include videotaping for private use.

What I would like to say at this time, Mr. Chairman, is that we are not in any way trying to be either vindictive nor are we stopping anybody from doing anything. The Chair agreed with the committee the other day that the presence of video cameras for private use was necessary and reasonable in order that the witnesses appearing before us today could prepare their testimony and could know what was transpiring, so that they would be able to fairly present their case.

However, at this time, the witnesses are now before us, and I think that further private videotaping, which has been something that practically no House committee has allowed in the past, should stop at this time and we should only allow the public media. I make that motion, Mr. Chairman.

Mr. ROSENTHAL. Is there any further discussion on the motion?

Mr. Daub?

Mr. DAUB. Mr. Chairman, I want to amend the motion to strike the last portion of the amendment.

Mr. PEYSER. Just to read it again to you, the last portion says that such broadcast shall not include videotaping for private use. Are you requesting that I drop that?

Mr. DAUB. Yes. I move to delete that proviso.

Mr. ROSENTHAL. All those in favor of the Daub amendment will indicate by saying aye.

[Chorus of ayes.]

Mr. ROSENTHAL. All those opposed, signify by saying no.

[Chorus of nays.]

Mr. ROSENTHAL. The amendment is defeated.

All those in favor of the Peyser amendment as it stands now will indicate by saying aye.

[Chorus of ayes.]

Mr. ROSENTHAL. Those opposed?

[Chorus of nays.]

Mr. DAUB. Could we have a vote on that, Mr. Chairman?

Mr. ROSENTHAL. A record vote is demanded. The clerk will call the role.

The CLERK. Mr. Rosenthal?

Mr. ROSENTHAL. Aye.

The CLERK. Mr. Conyers?

[No response.]

The CLERK. Mr. Atkinson?

Mr. ATKINSON. I vote aye, with reservations.

The CLERK. Mr. Neal?

Mr. ROSENTHAL. Aye, by proxy.

The CLERK. Mr. Barnard?

Mr. BARNARD. Aye.

Mr. ROSENTHAL. Would you call Mr. Conyers again, please?

The CLERK. Mr. Conyers?

Mr. CONYERS. Aye.

Mr. ROSENTHAL. The amendment is carried.

Today, the Commerce, Consumer, and Monetary Affairs Subcommittee continues its hearings into the Federal response to the national condominium and cooperative conversion trend.

Mr. DAUB. Mr. Chairman?

Mr. ROSENTHAL. Let me finish.

These hearings mark the first comprehensive oversight review of the condominium conversion phenomenon and the full range of Federal banking, tax, securities, and housing laws that affect this trend. We are specifically directing our inquiry at the impact of Federal laws and the operation of the Federal agency programs within the subcommittee's oversight jurisdiction on the conversion marketplace.

The laws administered by, and the operations and activities of the Federal Home Loan Bank Board, the Comptroller of the Currency, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Trade Commission, the Internal Revenue Service, the Securities and Exchange Commission, and related agencies are being examined.

This week, the subcommittee is examining the dynamics of the conversion marketplace including the operations of American Invsco Corp. and other converters.

A second set of hearings to be held in several weeks will carefully examine the role of Federal laws and the performance of relevant Federal agencies on this marketplace.

We believe that these hearings will provide the Congress with the necessary overview of these issues so that Federal policies which are presently unformed, fragmented, or inconsistent can be properly responsive to the important public policy issues raised by the conversion phenomenon.

Mr. Daub?

Mr. DAUB. Mr. Chairman, I ask you to allow the Republicans who are present to vote on the rollcall that I requested a moment ago. I think that is only fair.

Mr. ROSENTHAL. I thought I did.

Mr. DAUB. No, sir. You did not. I think you should do the whole rollcall over again out of fairness to the minority.

Mr. ROSENTHAL. We will do it.

Mr. DAUB. We have been here for the last 2 days. We are rather interested in your hearing, Mr. Chairman.

Mr. ROSENTHAL. Rather than call a roll, why do we not indicate for the record your vote on the Daub amendment to strike that portion which would have permitted private—

Mr. DAUB. Let us have a rollcall, Mr. Chairman.

Mr. ROSENTHAL. The matter is over. But can you indicate for the record how you would have voted on that matter?

Mr. DAUB. Let us have a rollcall. That is what I asked for, and I am entitled under the rules to request a rollcall vote, which I did, and it was not completed, Mr. Chairman.

Mr. ROSENTHAL. We will do the rollcall again.

The vote now occurs on the Daub amendment to strike that portion of the Peyser amendment that would permit private videotape recordings of these proceedings.

Mr. DAUB. No, Mr. Chairman. A point of information: The rollcall that we were engaged in was a rollcall on the main motion that Mr. Peyser offered. The amendment was defeated by voice vote, if I recall correctly.

Mr. ROSENTHAL. I think you are correct.

Mr. DAUB. We would like to be on record with respect to the Peyser amendment.

Mr. ROSENTHAL. The rollcall is on the Peyser amendment. The clerk will call the roll.

The CLERK. Mr. Rosenthal?

Mr. ROSENTHAL. Aye.

The CLERK. Mr. Conyers?

Mr. CONYERS. Aye.

The CLERK. Mr. Atkinson?

Mr. ATKINSON. Aye, with reservations.

The CLERK. Mr. Neal?

Mr. ROSENTHAL. Aye, by proxy.

The CLERK. Mr. Barnard?

Mr. BARNARD. Aye.

The CLERK. Mr. Peyser?

Mr. PEYSER. Aye.

The CLERK. Mr. Williams?

[No response.]



The CLERK. Mr. Daub.

Mr. DAUB. Nay.

The CLERK. Mr. Clinger?

Mr. CLINGER. Nay.

The CLERK. Mr. Hiler?

Mr. HILER. Nay.

Mr. ROSENTHAL. The clerk will report the vote.

The CLERK. Six for, three against.

Mr. ROSENTHAL. The motion is carried.

Our first witness this morning is American Invsco Corp.

Mr. Gouletas, we welcome you to the hearing. We are delighted you are here, and we welcome your distinguished associates. Do you want to begin?

Mr. ASHLEY. Mr. Chairman, with your permission, Mr. Gouletas has asked that I lead, followed by Dr. Brimmer, and Mr. Gouletas will then speak.

Mr. ROSENTHAL. Does Mr. Gouletas want to introduce you to us?

Mr. ASHLEY. No; I do not believe he feels he needs to do that, Mr. Chairman, but he will do so if you wish.

Mr. ROSENTHAL. Just so the record is clear, it would be useful. We all know each other quite well. It would be useful if he introduced you and asserted that you are a witness in his behalf or what the nature and character of the association is. I mean, I am personally delighted to see you here. It gives enormous personal satisfaction.

Mr. ASHLEY. I appreciate that, Mr. Chairman.

Mr. ROSENTHAL. Mr. Gouletas?

Mr. CONYERS. Mr. Chairman, could we identify who is at the table or with the witness?

Mr. ROSENTHAL. I think Mr. Gouletas will be happy to introduce his associates.

**STATEMENT OF NICHOLAS S. GOULETAS, CHAIRMAN, AMERICAN INVSCO CORP., ACCOMPANIED BY THOMAS L. ASHLEY, FORMER MEMBER OF CONGRESS, STATE OF OHIO; DR. ANDREW F. BRIMMER, FORMER MEMBER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM; JAMES F. FITZPATRICK, WASHINGTON LEGAL COUNSEL; AND DAVID KAPLAN, DIRECTOR, CUSTOMER RELATIONS**

Mr. GOULETAS. It is a pleasure to be here and to be able to have an opportunity to address the Congress. We have anxiously looked forward to this.

My name is Nicholas S. Gouletas, chairman of the board of American Invsco. With me, we have Congressman Lud Ashley and also Dr. Andrew Brimmer.

Mr. Ashley will cover the effects of condominiums as they affect housing, and Dr. Brimmer will cover the impacts as they affect the economy and inflation. I will address myself to the business aspect of condominiums.

Thank you, Mr. Chairman.

Mr. ASHLEY. Mr. Chairman, with your permission, I would ask that the prepared statements be entered into the record so that we can proceed extemporaneously.

Mr. ROSENTHAL. Without objection, they will be included in the record.

Mr. ASHLEY. For the record, Mr. Chairman, I am Thomas Ludlow Ashley. I am a recent addition to the burgeoning legal fraternity here in Washington. I come from Toledo, Ohio, where I also practice law. I was privileged to represent Toledo in the Congress for 26 years. During that period, I served continuously on the Housing Subcommittee of the Banking Committee, the last 4 years as its chairman.

My purpose this morning, Mr. Chairman, will be to review briefly the relatively short history of Federal involvement in housing and to try to put into perspective the Federal Government's response to the stepped up pace of conversion of rental property to condominium ownership.

Federal housing policy really got its beginning in the dark days of the Great Depression when the collapse of the financial markets suddenly threatened the equity of many millions of homeowners. But Congress responded, as many of you will recall, with the Home Owners Loan Corporation. This was followed in 1934 by the Federal Housing Administration that insured long-term level payment loans, and that was followed by such instrumentalities as the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation.

Mr. Chairman, this was the beginning of Federal intervention to protect and facilitate homeownership, a role, I might say, that has been reaffirmed each year by the Congress of the United States.

In the Housing Act of 1937, Congress passed the first public housing legislation with, of course, Federal guarantees of dead issues and annual subsidy payments to local housing authorities. This was the first instance of Federal intervention to assist directly in providing decent shelter for low-income Americans who simply did not have access to the private housing market. And I might say that this role also has been confirmed on a regular basis by the Congress.

These two forms of intervention, it seems to me, are important to keep in mind because they are the key to the two basic areas of Federal involvement in housing, and they underscore the two different approaches relied upon over the years to respond to changing housing needs and circumstances.

At the risk of oversimplification, the first form of intervention involves a broad range of indirect Federal assistance to facilitate access to the private housing and financial markets for millions of Americans whose entry would otherwise be impaired.

Examples abound. We have beneficial tax treatment of homeownership properties. We have mortgage insurance. We have, of course, development of the secondary mortgage markets that facilitate the sale of mortgages from thrift institutions, thus giving them liquidity to enter into additional mortgage transactions.

The second type of Federal intervention, Mr. Chairman, is fundamentally different. Instead of indirect assistance that relies primarily on the existing housing and financial markets, here the Federal Government creates a market by providing the direct subsidies necessary for low-income families to have access to decent shelter.

The distinction between these two avenues of Federal involvement is extremely relevant to these hearings because the recent advent of condominium construction and conversion has not been the result of a market created by the Federal Government but, rather, a consequence of supply and demand forces in the private marketplace.

In these circumstances, Congress has responded in a number of ways that I think are consistent with Federal housing policies and principles that span five decades and involve the two basic forms of intervention that I have described.

For example, in the 1978 and 1979 amendments to the Housing Acts of those years, Congress acted to assure that rental housing projects assisted by HUD and the Farmers Home Administration would remain as rental property and not be converted to ownership.

In the case of Farmers Home direct finance of multifamily projects, this was done by requiring agency approval for any prepayment of the loan. For HUD-assisted section 8 new construction projects, the legislation required HUD to enter into contracts of a minimum term of 20 years—the same, I might say, as in the section 221(d)(3) and the 236 program where we are trying to achieve the same thing—and 40 years if rent supplements were involved.

I point out in my prepared remarks, Mr. Chairman, that some housing observers have suggested an inconsistency on the part of Congress in forcing HUD and the Farmers Home Administration to assure that the lower income federally assisted housing stock be maintained as rental property, on the one hand, while allowing federally regulated lending institutions and federally related secondary mortgage markets to finance and otherwise facilitate condominium conversions.

Why do you do one thing on the one hand and another thing apparently on the other? The response is simply this: When HUD and Farmers Home underwrite the development of rental housing for low-income tenants, there the Federal Government creates a market and therefore has both an interest and a responsibility to see to it that these rental units remain available for their stated purposes for long enough to satisfy the taxpayers' investment.

We have got a different situation when it comes to the Federal deposit insurance and the secondary mortgage markets. These were never intended as instruments of direct intervention to assure the continued availability of unsubsidized rental units. Nor was it the intent of Congress that these programs be used as a means of allocating credit for various purposes unspecified by statute.

In short, these Federal activities were not undertaken to regulate or control markets created by the Federal Establishment but, rather, to augment and support the private financial and housing markets in their efforts to meet the growing housing needs of our population.

The important point, I think, Mr. Chairman, is that over the years Congress has shied away from housing legislation seeking to manipulate or otherwise cause the nonfederally created markets to produce various social objectives.

And I say this as one who served on the Housing Subcommittee 26 years, we seek to serve those social objectives, but not in this way.

I acknowledge that the record is not black and white. I can see Mr. Barnard who will remember that in the Housing Act of 1968 and subsequently we treated the question of interstate land sales, but here, while there was Federal intervention, it was only after 3 years of hearings which documented widespread deception and fraudulent practices that were quite clearly beyond the control of the individual States. In other words, there was an overreaching justification in that instance.

This was not the situation last year when Congress considered legislation in the Housing Subcommittee and the Banking Committee which dealt with condominium sales, and especially condominium sales from converted rental units.

The history of this legislation, I think, is informative. In the 1979 Housing Act, you will recall that there was a requirement for a HUD study of the extent and nature of condominium and cooperative conversions and their impact on the rental housing market.

This study was to be available to Congress by June 30, 1980. Interestingly enough, without waiting for the results of the HUD study, the Senate went ahead and included in its 1980 housing bill an entire title regulating conversions without benefit of the HUD study. Luckily, the House waited for the HUD study. I say luckily because it refuted the basic assumptions that the provisions in the Senate conversion title were predicated on.

Conversions, the HUD study found, were not a contributing factor to the current rental housing shortage. Conversions, the HUD study said, have only moderately impacted the rental stock, involving less than 2 percent of rental units nationwide, resulting in the loss of something like one-half of 1 percent of the available rental supply.

Given this and other factual information, including the HUD finding that State and local communities were responding through local ordinances to the particular situations involving conversions in their jurisdictions, the House conferees were strongly of the view that present circumstances simply did not warrant Federal intervention with respect to condominium conversions.

It therefore rejected the Senate provisions—the entire title—with respect to disclosures, warranties, first-person options, fraudulent activities, and so forth.

In the spirit of compromise, the House did accept three—as I recall, there were three—amendments that were substantive. These had to do with situations that simply could not be covered because of the vagaries of State law, largely in Florida, and that involved condominium leases that were clearly contrary to public policy and therefore should be considered void. It gave an opportunity in a court of law to make that determination. Otherwise, it would not have been there.

In the spirit of compromise, we accepted, I think, two sense-of-the-Congress resolutions. One expressed the concern of Congress over the impact on low and moderate income and elderly tenants of lending by federally insured financial institutions for condominium conversion.

Interestingly enough, this sense-of-the-Congress resolution was agreed to only after a sense-of-the-Congress resolution was adopted expressing the view that it was the responsibility of States and local communities for adequate notice and opportunity for tenant purchases and so forth to be effectuated.

So we accepted the one sense-of-the-Congress resolution only after there was a sense-of-the-Congress resolution saying that the primary responsibility for disclosure, notice, and so forth rests with the States and local communities.

What the record makes clear is that the last thing that the Congress intended in the Housing Act last year was to impose any particular solution to conversion problems at the Federal level.

Let me close my part, Mr. Chairman, by saying that displacement is a problem, and you do well to focus on it. The question really is whether this should be handled at the Federal level or whether it should be handled at the State and local levels.

I suggest to you that, over the years, as Congress has looked at different types of housing situations, the situation with respect to displacees is one that uniquely lends itself to State and local attention. I say that because there is not just one housing market where a single response might be appropriate. We have hundreds of housing markets, each different.

A New York City housing market clearly is different from that of Newark, or Toledo, or Timbuktu, and so forth. Each has its own particular characteristics.

Condominium conversion is a phenomenon brought about by a mismatch between supply and demand. That is why we have it. Rental housing, for a whole variety of economic reasons, is very hard to come by. There are no incentives to produce rental housing these days, and it shows in the annual figures over the past decade.

Multifamily housing has gone down; single family and condominium construction has gone up, condominium construction faster than any other form of ownership or any other form of shelter. And there are reasons for that, too, Mr. Chairman.

Homeownership is largely beyond the means of the American family today. More and more Americans are being priced out of the single-family detached housing market every single week that passes because the cost of housing is going up faster than the average family income. More and more families, if they are to have any shot at homeownership, have got to look to a different form of homeownership than that which their parents were accustomed to.

So, what I am saying, Mr. Chairman, is that supply and demand have produced the phenomenon of the condominium. And I would say this: If, in response to market forces, the construction of new condominium units is legitimate, then how can we say that the conversion of rental units to condominium units is illegitimate? If one is a response to market forces, so is the other.

Displacement is a reality. I am sensitive to it. During the 26 years I spent in the Congress, Mr. Chairman, I addressed the plight of those who could not afford housing on the private market. But the remedy for displacement must be real, positive, and it must be prompt.



It can better be effectuated, Mr. Chairman, at the local level where the benefits of the condominium movement are felt than at the Federal level at this juncture.

Thank you, Mr. Chairman.

Mr. ROSENTHAL. Thank you.

Mr. Gouletas, first of all, we are going to have to swear you in when it comes time for you to testify, but I thought it would be useful, and out of respect for your two colleagues, if we finished with them so that they could leave. You do not want them to sit here all day with you, do you, or do you?

Mr. GOULETAS. Yes; we would.

Mr. ROSENTHAL. I think it would be nice, then, if Dr. Brimmer could now speak.

Mr. GOULETAS. That would be fine.

Mr. ROSENTHAL. What we will do is swear you in but not swear the other two who appear as experts. I certainly acknowledge Mr. Ashley's expertise.

Do you want to introduce Dr. Brimmer?

Mr. GOULETAS. Yes. Dr. Brimmer is a former Governor of the Federal Reserve and has been an adviser for American Invsco for many, many years. I do not believe that Dr. Brimmer or his qualifications need any further introduction.

Mr. CONYERS. Mr. Chairman, if you would yield, I would like to join in welcoming Dr. Brimmer.

Mr. ROSENTHAL. I will yield.

Mr. CONYERS. I will explain it to you in more detail, if you will permit me.

I am very pleased to see Dr. Brimmer here, as the first black member of the Federal Reserve Board and one who has been very concerned about housing and related economic problems across the years. I join in the welcome that this committee gives a very experienced Government servant to these hearings.

Dr. BRIMMER. Thank you very much, Mr. Chairman.

Mr. Conyers, thank you for your kind comments.

Mr. Chairman, as has already been explained, while I am a former member of the Federal Reserve Board, I left that post in August 1974, and I am now president of Brimmer and Co., Inc., which is a Washington, D.C.-based economic and financial consultant firm.

Since the summer of 1978, I have served as an adviser to the principals of American Invsco Corporation. It is in that capacity that I appear today.

In preparation for my appearance and in order to assist Mr. Gouletas in his preparation, my company prepared a document entitled "Condominium and the U.S. Housing Market." I understand, Mr. Chairman, that permission has already been given for this document to be included in the record.

The purpose of my testimony is to examine the market for condominiums within the broader context of the overall housing market in the United States. I then discuss some of the problems and issues which have been raised, unfortunately, relative to the phenomenon of condominium conversions.

To begin with, to understand the role of condominiums, one must first appreciate the structure and operation of markets generally.

After all, we do have a market economy. Second, it is also important to understand the structure and functioning of the housing market specifically. Our study attempts to do that.

The housing market in the United States is composed of many buyers and many sellers, and it is one of the most competitive markets in the country. Mr. Chairman and members of committee, I want to stress that again. The housing market is one of the most competitive, rather than one of the least competitive.

The behavior of buyers is reflected in the demand for housing, and over the last three decades the demand for housing has increased more rapidly than the growth of the economy as a whole. The expanded demand has been influenced by rising incomes and changing tastes. These have been reinforced by demographic factors such as the aging of the population, the increase in the rate of household formation, and the decrease in the size of households.

On the supply side, housing has responded to changes in the volume and character of demand. This has been done through the effective utilization of the existing housing stock, new construction, and the conversion of some rental apartments to ownership status. Thus, the total number of housing units rose faster during the last decade than it had during the preceding decade, and the expansion of homeownership outpaced the increase in renter-occupied dwellings.

As a part of our study, we, too, examined the HUD study in some detail. We found it to be comprehensive and persuasive. Since Congressman Ashley has referred to the condominium study conducted by HUD, I will not summarize our own conclusions from an examination of that previous study. Let me say that our conclusions coincide with and reinforce the conclusions of the HUD study.

The growth of new condominiums and conversions is clearly traceable to their advantages over alternative types of housing. Condominiums have added to the supply of dwellings being sought by potential homeowners. This is particularly true in the case of smaller apartments such as efficiencies and one- and two-bedroom units.

For a potential homebuyer searching for a small amount of space, the condominium is virtually the only thing available. This situation is roughly analogous to the automobile market. You might recall that as the price of gasoline has risen the public's taste has shifted from large cars to favor small cars.

In the housing market, the condominium is exactly the counterpart of the small car in the automobile market. Condominiums are relatively cheaper than single-family houses. Again, this is especially true of the smaller units. Moreover, the monthly outlays required to own a condominium may be, over the long run, less than the cost of renting. That, too, is confirmed by our study.

The condominium business is a risky business. Mr. Gouletas will describe that in some detail, thus, I will not go into it. But in our own study we examined some of the risks in the business and conclude that it is risky, and it has a bearing on the questions of profit and loss in the conversion business.

I would also say quickly in passing that we must think of the developer in this market as roughly analogous to the underwriter

in the securities business. He takes a risk, puts his own money and skills on the line, performs a job, and moves on to other ventures.

Also, investors in the properties who are nonresidents from time to time also participate in the risk-taking. In the absence of such investors, there would not be the availability of funds to perform conversions and to carry the properties for some time.

Inflation has had a noticeably different impact on the rental market compared to the ownership market. Inflation has discouraged rental investments. Let me repeat. Inflation has persuaded landlords not to put new investments into multifamily rental properties. The statistics in our report demonstrate that over time the share of new construction for multifamily housing has decreased substantially, and ownership has taken the bulk of the new residential investments.

Inflation has especially stimulated the growth of condominiums. Again, it is basically because, on the supply side, it is cheaper to construct and sell multifamily units than to try to build an equal number of single-family housing, especially the smaller ones.

Unfortunately, despite the sound economic basis and rationale for the growth of condominiums, several myths persist regarding this part of the housing market. For example, it is argued that converters drive up market prices. It is said also that converters realize exorbitant profits, displace needy persons, and cause buyers to carry a higher housing cost.

This view, however, confuses the nature and causes of inflation. Without going into detail, let me say quickly that inflation is a measure of changes in the general price level and not of an individual product, and we should not confuse the two. I would be delighted to comment on that further, if you would wish.

Finally, in a competitive market, of course, no one seller can dominate the price. I want to repeat that. The condominium market is competitive, and no one seller can dominate the price.

Moreover, the increase in the supply of condominiums has helped to dampen the increases in housing prices. It is not the reverse. Condominiums have not caused the inflation. They have helped dampen the increase in housing prices.

It has also been charged that profits cause inflation. That confuses the role of profits and the nature of the market. Profits from condominium conversion arise partly as a result of inflation. Inflation contributes to a strong demand for condominiums in the face of a limited supply. This excess demand suggests that a profit might be realized, but there is no guarantee. There could be losses as well.

The level of profits generated depends upon the interplay of supply and demand, and thus there is no obvious basis for deciding whether profits are high, or too high, or too low.

It has also been argued that real estate speculators rush in to buy up units in newly converted buildings, hold them off the market, thus, raise the prices and make big profits.

Again, if we pause and reflect on who these outside investors are and the function they perform, it should become clear rather quickly that there is no real possibility for investors to hold apartments indefinitely, especially with the interest rates as they are today, and make a profit. After all, there is no guarantee while such an



investor is holding the property that no one else will come along and offer a cheaper or similar one. So I suggest that, too, is a misleading view of the role of condominium investors.

Some critics have asserted that condominium conversions erode the supply of housing. The HUD study, Mr. Chairman, is the best documentation I have seen to reject that proposition. HUD has demonstrated by this study that there is not a significant loss—in fact, a minor loss—in the rental housing stock, and the key point is this. When a renter buys a condominium, he leaves the rental market and becomes a part of the homeownership market, and so you get some reduction out of the rental demand and an increase in the demand on the other side. But, as I said, the HUD arguments are very persuasive.

It has also been argued that conversions displace many disadvantaged persons. I want to say quickly that the question of displacement is a serious one. There are persons who are not able to acquire a property at a particular time, and there is a need to be sensitive to that issue.

In our report, we describe in some detail the kinds of ways in which developers have been sensitive. We have also tried to collect some information, and it is in our report, on the facts.

I should say that in our judgment there is far more speculation and rumor than information, and we suggest that the bulk of the information implies that most people do buy. Some do not. Some cannot. We believe, and I so recommend, and my associate, Mr. Gouletas, and his firm have already been doing this in many ways, that there need to be some special efforts to cushion the impact of conversions on persons such as the elderly, the handicapped, and so on. And I will not preempt his comments because I have looked at the catalog of things that are being done.

Finally, it has been argued that conversions drain off money from the mortgage market. I would suggest that this is a fairly old-fashioned view of the world. There was a time when the Federal Government did promote programs which sought to corral mortgage money and make it available for single-family housing. This was done mainly by keeping the interest rates that institutions could pay fairly low so that they could raise cheap money and lend it out cheaply. Those days are gone.

The mortgage market is undergoing a significant transformation. We read about it every day. In the process, it is becoming clear that one will have to look forward to competing for funds in market terms and paying market rates. Those who are able to do that will be able to get the funds.

Finally, there is no reason to conclude that individuals who want to raise mortgage money to buy a home, which a condominium is, should not have access to the market. After all, how are they distinguished from anyone else?

I would be delighted to amplify these comments further, Mr. Chairman. Thank you very much.

Mr. ROSENTHAL. Mr. Gouletas, will you stand so that you can be sworn?

Mr. GOULETAS. I would be glad to.

Mr. ROSENTHAL. Do you solemnly swear that the evidence you shall give touching the subjects of investigation of this committee

shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GOULETAS. I do.

Mr. ROSENTHAL. You may proceed.

Mr. GOULETAS. Thank you.

First of all, I come to you as a businessman and as a private citizen. I thank our democratic system for the opportunity to be able to address our Congress. There are many countries where a private citizen would not have this opportunity. I thank you, Congressman Rosenthal and all the Congressmen.

I feel very strong about that because my brother, my sister, my partners, and I were born in Athens, Greece. As children, we went through two occupations, one of the Italians and one of the Germans, and then an attempted Communist takeover.

My father was in front of a firing squad by the Germans. He had nothing to lose. He jumped over the wall and escaped. My father was born in this country. My grandfather helped build this country. He died in this country.

We came back to the United States completely impoverished. We lived in a one-room apartment on the south side of Chicago at Drexell and 63rd, three children, my mother, and my father. It was when all the boys were coming back, and jobs were hard to get, and houses were impossible.

My mom and dad worked two jobs. My mother brought piece-work home. They saved enough money to buy a house, and Engie, and I, and Victor had to kind of fend for ourselves.

My father had no particular skill and a hard time with the language. My mother could not speak English at all.

The most striking thing that I remember about America as we came over on the first troop carrier was all the excitement one morning. All this excitement was caused by a statue. This statue represented a philosophy, represented a freedom, and represented opportunities. All those people on that troop carrier, all those immigrants, were very excited. There was electricity. There was hope. It was all in Greek, but they were very proud of it. Boy, were they proud of it.

They were coming to a land that would allow them to work, a land that would allow them to educate their children. They were coming to a land, yes, where they could speak to the Government, where they could vote, a land of freedoms, especially after all they had gone through.

Those philosophies, the hard work that my parents put in, the endless days, have been passed on to Victor, and I, and Engie. We never had a vacation. We did not know what a vacation was all about. My father worked every weekend. He put three children through college—I have another sister. I only went 1 year, but my brother graduated as an engineer and graduated as an attorney. Engie has her master's degree in mathematics and most of her credits for her doctorate, and my other sister is a schoolteacher.

You know what? For an impoverished family, those hopes that they had on the bridge of that boat have come true.

Those people have educated their children, have bought their homes, have given opportunities, and have gone into business. Victor, Engie, and I went into business. Engie went into the educa-

tional field, Victor into the legal field, and I into the marketing field, all very successful, with the philosophies and the work ethics that my father and my mother inundated us with.

In pursuing our professions, we continued in focusing on the opportunities of real estate. We purchased several little properties. As we continued to focus our personal investments in real estate, we realized that one of the greatest foundations in this country was the real estate market and the real estate field.

At one point, in the late sixties, we decided to devote our full-time effort in the real estate field and incorporated American InvSCO, to use our knowledge that we had built up in the real estate investment for our personal portfolio, for the general public.

As we tried to service the general public, we found out some very exciting things, some very interesting things, and some very annoying things. One, we found out that a lot of people could not buy their homes in urban areas. You cannot build a ranch house on Lake Shore Drive. So they had to go to the suburbs.

A lot of people who would have liked to stay in the urban areas were actually forced out if they wanted to get into homeownership. There was no vehicle for them to actually get into an ownership position and stay in the city. So a lot of our professional people and a lot of our young people were continuously leaving the city and we, as brokers, could not service them.

We also found out something else was happening, and that is that owners of big multihousing properties—50 units, 100 units, 200, or whatever they might be—could not continue to maintain them with the rents that they were charging. They could not continue to improve them. There was deferred maintenance, and the city was feeling it.

It was not hard to say, "You know, there is a market; there is a demand. That market and that demand can be serviced by the properties existing." We bought a building. We spent a lot of time, a lot of effort, and a lot of money—and, ladies and gentlemen, when you have all the money that you have tied up in a project, that is a lot of money—so that we could introduce multihousing homeownership to citizens. And, to our delight, we found that it was readily accepted. We found that people did like it. People did buy. People did take pride in homeownership in the urban areas.

We found it created a couple of other things, too, by the way. One, as that property was improved the neighbors looked around, and they said, "You know what? Maybe the city is not going down. At least it looks like someone is doing something about it here, and maybe we ought to do something, too." And other properties started to improve. Other people started to make investments.

We found a couple of other things happened. As this continued, these properties started serving as anchors in neighborhoods. We did a property in what we now call in Chicago the uptown area, a property that sat there, had some deferred maintenance, and looked like it was going to go down. The rest of the neighborhood had.

We improved the property. We turned it into private homeownership, and a lot of other people said, "Look. If there are 300 or 400 people here who have now invested their money in private ownership, it behooves us to then fix our properties."

And I will tell you, even little developers went in—people who took over 6 flats and 12 flats that were either abandoned in their neighborhood, burned out in their neighborhood, dilapidated in their neighborhood, boarded up in their neighborhood, and spent all kinds of money fixing those properties up. Yes, they turned them into private homeownership and Uptown is on its way up.

Chicago is a great town. So is every other urban area. We are going to need those urban areas. Those urban areas are the strength of America. As they go, so will the suburbs. We find out, ladies and gentlemen, that there is definitely a demand, a need for condominium conversions.

A great Greek philosopher once said that there is only one truth in this world—and if you reflect on this—he said the only truth is change. Once upon a time, people thought that the world was round. Then they thought it was flat. Then it was round again. And now it is oblong. There is change. There is truth, but the truth, ladies and gentlemen, is that we have to face change.

After the war, private ownership of properties was somewhere around 40 percent. Today, private ownership of property is somewhere around 60 percent. People are opting to own their own home. There is a pride in it.

We find, ladies and gentlemen, that we are part of a world. America does not stand by itself as an island. The truth in the world is that we have inflation. American Invsco did not create inflation, but we have it. It is here. It is going to continue.

What we ought to look into, gentlemen, and I ask the Congress to take a look at, not an instant picture of one second, but take a look at a 5-year picture, a 10-year picture, a 15-year picture. Those people that say, "I can't afford to purchase." What is going to happen to those people even if it stays as rental over the next 5, 10, or 15 years? What is going to happen if the cities keep going down?

I ask that you come back with me if you want to hear what the true effects of homeownership are. Come back with me. Let us visit the first building that we ever converted. Let us visit the second building we ever converted. Some of those people were 50 years old at that time. They are now 60 years old. Let us find out what those people have to say.

They did something very important. One, they locked in. They locked in their cost of housing. They locked in the price, which is very, very important. Two, they locked in a mortgage. It was an 8-percent mortgage. Believe it or not, ladies and gentlemen, we had 8-percent mortgages. I do not know where they are going to today, but I will tell you, 7, 8, 9 years ago, we still had 8-percent mortgages.

As a matter of fact, I remember when we did the 2400 Lake View Building. That is where the Chicago fire stopped, on the corners of Fullerton and Lake View. There is a big plaque right outside of it. The mortgages had gone up to 10 percent. Ten percent! Can you imagine that? And a lot of people were saying, "Nobody is going to buy at a 10-percent double-digit interest rate." Boy, would I love to have some of those mortgages back again.

But those people in the Lake View, even though they took some double-digit mortgages, locked in: One, the price; two, the mortgages.



If you look at your statistics, and if you do your research, which I think is an obligation of the Congress, you will find out that many of these people are paying less or about the same for their total housing if they bought it 5, 6, 10 years ago, than they would be paying rent today. I think that is very important. They locked it in. They are paying less for being in an ownership position, for having pride of ownership, for having the equity continue to appreciate for them, than they would be paying for rent today.

Where are we going to be 10 years from now? People who are 60 years old will be 70. Are we going to have 20-percent interest? Is that possible? I do not know. I do not have a crystal ball. But I do know this. Nobody ever thought we would have a 20-percent prime. At least, I did not, as a developer. If I did, I am sure there are a lot of developments that, as business investments, I would not have gone forward on, and neither would a lot of other people.

So, ladies and gentlemen, I ask that the Congress take a close look at the positives that condominium conversion has done, No. 1, for cities. It has helped, not only helped, but almost saved some cities. It has certainly anchored neighborhoods. What it has done for people is allow them to have the pride to live in these cities and to lock in their cost of housing.

As a matter of fact, my brother and I were walking by 260 Chestnut one day, and an older couple came up to us. They did not know if it was a good decision to purchase. They had never owned a home before. But they bought a unit at 260 Chestnut. It was a smaller home, a one-bedroom, but that is all the space they needed.

We were walking by, and they came up to us and said: "Nice to see you. How's everything?" And we started talking about their purchase of the condominium. They looked at me and said: "Would you buy it back?" I said: "Well, I'll give you at least twice what you paid for it." And he thought that was beautiful, twice what they had paid for it.

And then they asked me: "Nick, how much are they selling for per square foot now?" And I said: "About \$110 a foot." They said: "But that's three times what we paid for it." And I said: "Yes." And they smiled again.

There are those kind of people all over this country. We have sold over 11,000 to 15,000 units, including our brokerage people. We are very proud of the people we have sold to. They are very proud to be homeowners in America.

Ladies and gentlemen and Members of the Congress, I am proud to be an American citizen. I am proud to be a businessman. I am proud of the business I am in. And I am proud that we have had an opportunity, yes, along with making money, like any businessman is in a business for, an opportunity, however, to affect in a positive manner our cities, the lives of our citizenry, and, I hope, the Congress of the United States of America.

Thank you very much.

Mr. ROSENTHAL. Mr. Gouletas, do you want to go through that portion of your testimony that, hopefully, would be responsive to the questions the committee has, including the nature and character of your operations and that whole thing? I think it would be useful if you did that now.

Mr. GOULETAS. I think we filed, Congressman Rosenthal, written answers to all of that, and I think you have them. If you would like, I can refer you to the letter.

Mr. ROSENTHAL. Could you summarize that portion of your testimony that dealt with the factual situation? You know, we were interested in all of the conversions that you did, what the costs were, what the selling prices were, what your practices as far as offering opportunities for residents to purchase were, what your experience was in evicting people, how you treated elderly people.

I very much appreciated the philosophical discussion, but it does not get to the crux of the matter that the committee has under consideration, that is, more precisely how the nature and character of the operation runs.

Included in that whole story, tell us something about the Promenade, how much it cost, how much you are selling for, what your experiences are, how you are dealing with the people involved. What we are interested in understanding microscopically is exactly how this conversion process works.

The things you said were very appropriate, and I want to commend you for it. It is in the spirit of, not only America, but the kind of things we all believe in. But at some point in this hearing, and, hopefully, it will not last more than a day or two, we want to get down to the specifics of conversion.

What we had from your associates, Mr. Ashley and Dr. Brimmer, was very useful testimony in terms of broad public policy issues. What we had from you were very poignant, philosophical comments about the growth and spirit of America. What we need now from Nicholas Gouletas, the chairman of the board of American Invsco, is some specific facts about the number of conversions and all the processes involved.

Mr. GOULETAS. Congressman Rosenthal, over the last 6 months, I have turned over to this committee 26,000 pages of those kind of answers, of the process involved, a yearbook having all the buildings that we have converted, all or most of my associates' pictures there and answered your latest letter.

Mr. ROSENTHAL. That was all preparatory for today. Today is the culmination of all that. I do not want to compare it to any other legal proceedings, but that was in preparation for this hearing.

Mr. GOULETAS. But you do have all that information, do you not?

Mr. ROSENTHAL. Yes. We could spend hours, they have prepared for me hundreds and hundreds of questions. I would rather you brought it out directly and summarized it as best you can. Tell us about the process. I mean, I could change seats with you from all the material you so generously furnished to us with the superb cooperation of your attorneys. I want to tell you, they have been very, very helpful and cooperative.

But we have to hear from you. You are the only one. I have all this material about the number of units purchased and the charges of speculation, and the whole story of all the American Invsco properties. What we really have to do is go with you, item by item, over all of these so we can see whether there really is an impact on inflation, what the problems with displacement are; if there is speculation, is it a matter for concern with the Securities and Exchange Commission? Were there outside involvements?

Tell us the story about Mr. Tully. Did he receive preferential treatment? Did the members of your family receive preferential treatment? You must tell us something about the 197 units that the Gouletas family purchased and who the residents were. Were people displaced in that matter?

Mr. GOULETAS. I would be glad to. The condominium process is a big process. I have here a large book of information that I would be glad to furnish.

Mr. ROSENTHAL. I have an intuitive feeling that you have much of this information at your fingertips, and you could very eloquently and articulately tell us the whole story. What we want to do during the course of this process is review everything from Chicago, to Nashville, to Lakewood, to Houston, to St. Petersburg, to New York, to the new purchase there. Are you closing today in New York?

Mr. GOULETAS. I would say that that is a private business transaction going on right now.

Mr. ROSENTHAL. Well, it is in the Times, but that is fairly private.

Tell us as much as you can.

Mr. GOULETAS. Let me start, then. I think we have a long day ahead of us.

Mr. ROSENTHAL. Mr. Barnard?

Mr. BARNARD. Mr. Chairman, I was wondering if you might at least indicate to the witness some of the specifics of the categories that you want him to relate to rather than just being so general. If he got to generalizing, I am afraid we would be here this time 2 years from now.

Mr. ROSENTHAL. That is very useful. I think the witness' adroitness at oral presentation has been exhibited today with crystal-clear clarity. I would be happy to do that. I do not want to get into any problems with the 5-minute rule. If we have to go into the 5-minute rule, we will be weeks at this process.

I do not want to encumber your time or burden my colleagues on the committee with that. So the way to do it, and save the 5-minute problem, is for you to respond to all of the broad areas of inquiry that you know the subcommittee is concerned and interested in.

I know that Mr. Fitzpatrick has prepared you deftly for this hearing with his usual skill. That has been exhibited time and time again during this inquiry.

Talk to the issues. Tell us what happens to a building. Tell us what happened to the Promenade. Tell us what happened in Jenkintown, if you want me to give you an opening, as Mr. Barnard said.

Mr. GOULETAS. I would be more than glad to start any time you are through.

Mr. ROSENTHAL. Proceed.

Mr. GOULETAS. Thank you.

We purchase a building. In purchasing a building, we have to analyze the market that we are going to be working in. We have to analyze the supply and demand in that market and the pricing that that market would reflect for our product.

In purchasing a building, our company commits millions of dollars in concluding the purchase. We go into a complete engineering study of that building to find out what kind of work that building needs. Our engineers usually are either national or a prominent engineer in that particular locality.

Depending on the building and how well it was maintained, the work that needs to be done can be from a minimum to a maximum.

I can tell you of one building that I purchased where the builder of the building was the architect, designer, and owner thereof, manager, and continued owner thereof. We looked to see what could be done, what should be done, and in that particular building, as a matter of fact, he had it so well taken care of that no one even had the key to the front door. Only the doorman could open the door for you in order to have access to that building. That was a very exceptional building.

The only thing we did there, in essence, is a certain amount of glazing, because glazing does wear out no matter how well an owner may take care of it, and we changed the florist. He had fresh flowers delivered to the building every week. The people in the building complained about the new florist, and we went back to the old florist.

In some buildings, such as the 400 Plaza in New York, we spend in refurbishing, kitchen allowance, and capital funds, \$5,350,000. I am trying to give you the two extremes.

There is no use going into a building and doing work just to be doing work. On the other hand, the work that needs to be done should be done.

We then put together a resident program. We have, before there were any laws, before there were any senses-of-Congress, allowed the residents first right of refusal in each and every building that we have ever done from the very first building.

We have allowed the residents the first right to refuse. We have allowed them anywhere between a minimum of 30 days to a maximum of 6 months, not to purchase but just to make an indication that they were interested in buying, subject to a mortgage, subject to closing, and subject to many other things.

The closing process takes a minimum of 90 days from the time of offering to as long as 9 months from the time of offering.

We have always considered the residents and have given them a special position in that building. We have always put together some type of a resident program. The resident program itself will address itself to as many needs as humanly possible for that building. The building, and each building, has its own characteristics. You will find in some buildings that the people are older. You will find in some buildings that the people are much younger.

So, as we identify the needs of those residents, we try to structure a resident program. The resident program addresses itself to some type of a discount for the residents themselves. That discount varies, from as little as 5 percent to as high as almost 30 percent.

We have also addressed ourselves to the maintenance. The maintenance in the building, on many occasions, for resident purchasers, has been paid for for anywhere from 6 months to 2 years by the developer. What I am saying is that the fuel costs, the janitors,



and everything that goes into the maintenance budget quite often is paid for by the developer.

There are a couple of reasons for this. One is cash flow. Some people do not have the cash flow immediately to meet the increase that there is between a rental and a purchase. Quite often, in purchasing a unit, the amount of money on a monthly basis can easily double. Even if there is a desire for homeownership, we have found that some people just cannot meet that cash flow immediately.

However, after they have gotten their tax deductions for the interest in the mortgage payment and the taxes that they have paid, you will find that the next year the total payment, including those two situations, will come to not much more than what they might have been paying for rent. Instead of being 2 or 2.5 times, with the credits now, it only might be 50 percent or 75 percent more than what they were paying for rent.

Mr. ROSENTHAL. Mr. Gouletas, considering the fact that—

Mr. GOULETAS. Mr. Rosenthal, if I may, just 1 second, please.

Mr. ROSENTHAL. What do you want to do? Do you want to switch chairs, is that the idea?

Mr. GOULETAS. No, sir. I like my job, and I think you like yours.

Mr. ROSENTHAL. Let me offer a suggestion. Both of us are interested in developing this hearing to the maximum public use. In some cases you will have to rely on my judgment and the judgment of members of the subcommittee.

I had hoped you would develop a factual history for us so that we could better understand and develop a record of exactly what happened. I do not see that taking place. So maybe we will have to revert to the question and answer process.

If there is something you feel very strongly about and compelled to finish with now—

Mr. GOULETAS. I was trying to go through the conversion process from beginning to end to give the Congress and anyone else here listening.

Mr. ROSENTHAL. But could you give us some factual information? Take the Promenade.

Mr. GOULETAS. Why do you keep going back to the Promenade, if I may ask, when we have 70 conversions?

Mr. ROSENTHAL. I will take any conversion you want to.

Mr. GOULETAS. Let us take 400 Plaza, right here, sir.

Mr. ROSENTHAL. Well, I was trying to stay away from New York.

Mr. GOULETAS. You said you would take any conversion. Here is the 400 Plaza.

Mr. ROSENTHAL. How about taking the Galt in Florida?

Mr. GOULETAS. Let us take the 400 Plaza.

Mr. ROSENTHAL. Which one of us is going to make the decision? Let me do it this way, as of this minute. Now we will start questions, and you will be as pleasant and cooperative as you can, and I will be as pleasant and cooperative as I can, which will probably be significantly more difficult. [Laughter.]

On Monday, we had testimony from a number of persons who had lived in apartment buildings that had been converted. Three of those persons had lived in buildings that you had purchased for conversions, two at the Promenade and, I think, at Jenkintown.

I am reading from the sworn testimony from the people, first from the Promenade. These are the words they use to describe American Invsco, and I quote: "Brutal, unfeeling, arrogant," and: "Invsco caused more havoc with money and paper than a terrorist could have with a gun." Witnesses said that your employees put people who wanted to stay on a lease through humiliating and dehumanizing interviews, compelling them to beg for assistance and to reveal the most intimate details of their finances and health. And, even then, they were brutally refused leases, sometimes for no apparent reason.

The witness charged that your company harassed people who opposed the conversion. And the witness went on to say that behind your smooth facade there is, and I quote, "an iron fist ready to strike fear, create chaos, and generally disrupt the lifestyle of the tenants."

The witness from Beaver Hill, Jenkintown, Pa., referred to your company as, and I quote, "the toughest, most unrelenting, and heartless of the many converters descending on the Philadelphia area." He called your company sales practices, and I quote, "deceitful" and described the cases of people who became sick and perhaps even died as a result of conversion activity.

Could you comment on that testimony?

Mr. GOULETAS. Yes, I can comment on that testimony. I am very proud that American Invsco, No. 1, was the first one to recognize the needs of the tenants and to put into effect programs that would help the tenants and help any displacement or anything such that was caused.

American Invsco has what is known in the industry as an ombudsman.

Mr. ROSENTHAL. Why do you think those people made those kind of accusations and charges on sworn testimony before a congressional committee? I have never heard those kinds of things before.

And let me say this. I visited Jenkintown. I visited with 16 people, and the stories I heard almost caused me to cry. Why? What is going on?

Mr. GOULETAS. Mr. Rosenthal, you have a letter by the way, when this all started, asking you personally and your committee, if they had the time, to come and visit properties that American Invsco had converted, and to allow me to take you through, push doorbells, and talk to any resident in any building that you wanted to visit. I again extend that invitation.

Yes, Mr. Rosenthal, there will always be some people who will be dissatisfied, no matter what we do. Even in this great society of America, somebody attempted to kill the President. So there will always be some people who are dissatisfied no matter what you do.

We have an old age program. We have a relocation program. We extend leases for 2 years. We keep the rents the same as previously, with a very slight increase—somewhere between 8 and 10 percent—the second year.

You mentioned inside buyers. As a matter of fact, you have another property that I do not know why you are not addressing. We have the Grosvenor right here, 1.5 miles from the Promenade. Why do we not ask those people?

Our associates picked up the properties that these older people were living in and are now subsidizing those people to the degree of whatever the rent is. They are matching it to subsidize it, and they are carrying those properties for those older people.

We have done more than any law has ever asked. The Montgomery County law asked for a year. We gave them 2 years.

Mr. ROSENTHAL. Shall we go to the next question? That question, as far as I am concerned, was not satisfactorily answered.

Mr. GOULETAS. Why? I am telling you, Mr. Rosenthal, what our programs are, and I am addressing myself to it. As a matter of fact, Mr. David Kaplan, who heads up this ombudsman program is here with us. If you would like, he can explain it in detail. He was with the B'nai B'rith for many, many years.

Mr. ROSENTHAL. I know that, and I want to commend you for taking somebody from the B'nai B'rith; that is good. [Laughter.]

Mr. PEYSER. Mr. Chairman, would you yield for just a brief instant?

Mr. ROSENTHAL. Certainly.

Mr. PEYSER. I know that Mr. Gouletas did not mean to infer when he made the reference, at least I hope not, that the man who attempted to assassinate the President was in some way similar to the tenants who are raising this question.

You did make reference to that.

Mr. GOULETAS. I think that is unfair, Mr. Peyser.

Mr. PEYSER. I think you were unfair to make reference to it. You said look at the person who shot the President. I am sure you do not mean that.

Mr. GOULETAS. I said that no matter what you do, no matter what the system, there will always be dissatisfied people, and you cannot please everybody. We have tried our darndest; but, yes, we cannot please everybody. You will always have somebody complaining about something, sir.

Mr. PEYSER. I realize that, but I think the reference to the President is unfair.

Mr. ROSENTHAL. We are going to try to develop an orderly, slow, thoughtful, cooperative procedure. I will try and cooperate; you will try and cooperate; he will try and cooperate. There are many questions I have, and my colleagues all have equal time, and we want to get to that.

Apparently I cannot deal with getting a response to the first question. Let me try another question.

The Gouletas family purchased a total of 197 apartments throughout the conversion process. That is a figure that you gave to me. Could you tell us where those apartments were that you purchased and whether or not the previous resident was expelled from that apartment?

Mr. GOULETAS. Yes.

Mr. ROSENTHAL. In other words, going down the list, you purchased 7; in trust for your children you purchased 63; Victor purchased 1; Evangeline purchased 18; and all other members of the Gouletas family purchased 108, coming to 197.

My second question will be the number of employees of Invsco. But what I am interested in is, of the 197 apartments that you folks purchased, where they are, and what the history of that unit

was before you purchased it. In other words, was anybody thrown out, expelled, or evicted as a preliminary condition for your making that purchase?

Mr. GOULETAS. The answer to the second part of the question was: Absolutely not; but the answer to the total question is that I, personally, tell my sales manager in a bigger building that if he has six apartments that people need assistance in to put those aside and I will put them in a trust for my children, purchase them and put them in a trust, keeping the tenants, giving them a minimum of a 2-year lease. That includes, by the way, and I want to make a point of this, the units we have in Florida—that is approximately 70 units, with our personal units.

Out of all of them, one unit has been sold in the last 8 years. That is an accumulation over 8 years. One unit has been sold. The tenants that were there are there, except if they chose to move somewhere along the line.

Mr. ROSENTHAL. I want to be precise. Of the 197 units that the Gouletas family purchased, is it your sworn testimony that in every case the tenant in that unit was permitted to continue occupancy?

Mr. GOULETAS. My sworn testimony is that I cannot say each and every unit, because that includes 25 or 30 members. We included every unit that a cousin or a cousin's cousin might have bought. So I cannot tell you for 197 units, but I can tell you what the policy is. Our policy is to leave the tenants in there, not to increase their rent, to increase it very slightly the second or third year, and we are subsidizing those units to a great degree; that is my testimony.

Mr. ROSENTHAL. How many units have Invsco insiders, employees, and directors, including other associates of Invsco, purchased and owned?

Mr. GOULETAS. I do not have a figure on that.

Mr. ROSENTHAL. Would it be in the hundreds?

Mr. GOULETAS. I do not have a figure on that.

Mr. ROSENTHAL. In Plaza 400, which you want to talk about, and I will talk about it, too, in New York State, elderly residents in a conversion building can request a lifetime lease. New York is the only State in the country that has that, if they file an exemption with the converter.

In the Plaza 400 conversion, you challenged every single exemption filed by an elderly person.

Mr. GOULETAS. What we did is this: We turned all those over to the attorney general and said: "Here they are. How do we process them? What is the procedure?" We asked for his assistance.

Mr. ROSENTHAL. You challenged every one.

Mr. GOULETAS. No; we did not challenge every one. We said: "Here it is. We don't know what to do with it."

It also has qualifications, Mr. Rosenthal. They are supposed to have under \$50,000 per year earnings. We do not know how to determine, or make the determination, and we do not want the responsibility of making that determination whether they qualify or do not qualify. We thought the best person to make that determination is the person supposedly representing the people of New York, and that is the attorney general.

We went to the attorney general, and we said: "Here they are. You tell us which ones qualify and which ones do not qualify. We do not know how to make that determination." That is what we did.

Mr. ROSENTHAL. Have you ever evicted anybody?

Mr. GOULETAS. To the best of my knowledge, and when you use the word "eviction" it is a legal term; yes. Leases have run out. No; to the best of my knowledge, I do not know that we have evicted a person, from the condominium aspect.

In rental buildings, I am sure—we manage rental buildings as well.

Mr. ROSENTHAL. This is my last question.

Mr. GOULETAS. Wait. I have got to answer that question in full because you might come back and say: "You have a rental building somewhere along the line, and here is a person that was evicted."

Mr. ROSENTHAL. No; this has got to do with the Promenade—that is a conversion, right?

Mr. GOULETAS. I did not know that you had qualified it.

Mr. ROSENTHAL. That is not a rental building, is it?

Mr. GOULETAS. I did not know that you had qualified your question.

Mr. ROSENTHAL. Have you evicted anyone from the Promenade?

Mr. GOULETAS. We have not taken any eviction processes on anyone, to the best of my knowledge, at the Promenade.

Mr. ROSENTHAL. I have here a copy of a memorandum signed by Gloria Luksa, general manager. Is she one of your people?

Mr. GOULETAS. I believe so.

Mr. ROSENTHAL. It says here: "It is my understanding that eviction notices will be sent on December 1 to occupants in executive and two-bedroom apartments that have signed the extensions." Is that an eviction?

Mr. GOULETAS. We have not sent any evictions. Mr. Rosenthal, you asked me if we have any evictions or have started any eviction processes. We have not done either one.

As a matter of fact, to clear the Promenade, not only have we not evicted anyone, where we have purchases, where someone is living in the apartment, No. 1, the county only asks for a 2-month notice. We have given everyone a 3-month notice. No. 2, everyone in the Promenade has been asked and given the opportunity to take another apartment in the Promenade that is at the present time vacant. We have offered these people a minimum of another 6-month lease with a minimum of a 90-day notice. Yes; we have done that.

Mr. ROSENTHAL. Mr. Daub?

Mr. DAUB. Thank you, Mr. Chairman.

Mr. Gouletas, I want to thank you very much for personally being here today.

Recalling that the chairman asked that you be sworn, and much of what you have been testifying to is opinion, I think you should recall that as you are talking to us today.

I especially appreciate your bringing former Congressman Ashley and Dr. Brimmer with you. Their expertise and information will be very helpful to this subcommittee.



Before I ask you some questions, Mr. Gouletas, I want to ask some questions of the gentlemen at the table with you.

First, to our former colleague, welcome. Could I ask you to elaborate, Mr. Ashley? First, you said that you thought this matter might properly, with your 26 years of experience in the Congress, be one left to the Federal, or State, or local level. You said the word, "Federal." Did you mean that? Or did you mean the State and local level?

Mr. ASHLEY. Yes. If we have a problem of displacement, that problem should be addressed primarily at the local level where the various housing market factors are producing the supply/demand situation.

If we are talking about the kinds of actions that local communities can take, there are a panoply of them that have already been taken by local communities. They have passed ordinances. They have entered into agreements with those who do convert rental property to condominiums and cooperatives.

At the Federal level, what we do is say what we have said in the past—that this phenomenon is taking place. There is a modest role for the Federal Government to take. For example, what we have said is that with respect to displacees, they shall have a preference when it comes to the section 8 and the section 235 housing. That is what we have said. That is the law of the land. So the displacees, by virtue of Federal action, have been assisted.

What I have tried to make clear to the panel, Mr. Daub, is that the Congress, over the years, has considered it manifestly inappropriate in a situation where there is a truly troublesome factor, such as displacement, to interrupt the forces of supply and demand altogether. What we have said in the past is that the appropriate response is to facilitate a resolution to the problem while allowing the marketplace to operate. And that is a very significant difference.

Mr. DAUB. My last question to you, based upon what you have just said, then, is: Could you elaborate on what is needed to induce new housing construction? If we have the demand, can we not get more supply of rental housing stock?

Mr. ASHLEY. Rental housing has gone into a decline over the last decade for a variety of reasons. One of them, as Mr. Rosenthal, I think, will appreciate, is the fact that we have had rent controls in many of our larger cities. That has cast a pall over the investment incentives of those who might otherwise have an interest in investing in rental property.

The fact of the matter is that, as has been testified to, we have had two changes in our tax laws in the last 5 years which, on balance, have further produced a disincentive for rental investments. They straight out have.

Probably the bottom line is this. It is very hard to come up with the investment money today needed to produce high-cost rental construction, even for medium and modest income families. The price of housing has so skyrocketed that it is all but impossible to produce new rental housing that makes available units at less than the \$500, \$600, or \$700 rental. There is not an effective demand for that kind of rental housing.

Mr. DAUB. What you have just said, then, leads me to Dr. Brimmer.

You made the statement that the nature of the high risk involved in conversion was a factor, as you studied the matter. What is that high risk all about? Elaborate in specific detail. In, say, for example, Mr. Gouletas' case, what high risk does he take?

Dr. BRIMMER. Thank you very much, Mr. Congressman.

First, he takes the risk that, when he buys a building, he may have misjudged the nature of the demand, as any other businessman running a firm might do. For example, he may have concluded that the tenants in the building would want to stay, and those who would not want to buy he can replace with some others from outside.

But what if another converter has come on to the market with an additional building which Mr. Gouletas did not know about, despite his market research? There is a new supply. So he runs the risk of having part of his market fall away.

Second, he has to carry the building. Every conversion involves a substantial amount of up-front money. He has to borrow that money. He may assume that he can borrow, let us say, in the old days at 12 percent prime, and it now runs to 15 or 20 percent prime. He is stuck with the carrying costs.

Mr. DAUB. Are there any other risks?

Dr. BRIMMER. Yes. He runs the risk that the local municipality may change laws in the process, which might stretch out the conversion period, cause delays such that the product is on the market much longer than had been anticipated. These are just some of the risks he would have to face.

Mr. DAUB. Is there a point, and I would address this to Mr. Gouletas as well as the other two, in time in any of the communities with which you are familiar, where you have done business, where condominiumizing the market will saturate it and there will no longer be a market for the types of conversion your business has been involved in?

Mr. GOULETAS. I do not think so.

I will tell you what is happening now in Chicago, which may be of interest to the Congress. Even though, as Congressman Ashley said, it is not feasible economically to build a rental building today, they are starting to build rental buildings. As a matter of fact, there are almost a dozen rental buildings going up today in Chicago to provide rentals.

However, they are being built on the basis that the investors will be able to divest themselves of the capital that they are putting in and also be able to bring back any deficit carrying, and now they are projecting those buildings on a deficit carry for approximately 5 years. They are going to be able to convert those buildings somewhere between 7 and 8 years down the line and recoup their investment, recoup their carrying, and possibly make a capital profit on top of it.

So, therefore, yes, they are providing new buildings on a non-economic basis, looking into the future at a potential conversion 6, 7, or 8 years down the line.

Mr. DAUB. Are you saying that the tax laws are subsidizing people who argue they do not have the money?

Mr. GOULETAS. I am saying that the depreciation tax laws are allowing developers to put up a building today even though there is no return on the capital investment, and, taking it one step further, that, yes, they are even subsidizing the rent because instead of having any cash flow they are putting money in the building every year on the basis that, because of the tax laws, 6 or 7 years down the line if they do convert the building or sell it to a converter they are going to be able to recoup the money, and they are going to be able to get the capital gains treatment.

Mr. ROSENTHAL. The gentleman's time has expired.

Mr. DAUB. I want a document submitted. May I ask him for a document?

Mr. ROSENTHAL. Yes, certainly.

Mr. DAUB. Thank you, Mr. Chairman. It is important, I think, for our subcommittee to have this.

Could you provide two documents for the subcommittee? One would be a copy of the lease agreement that you offer to someone who declines to convert for the 1 or 2 years in your ombudsman program?

Mr. GOULETAS. I would be elated to do so.

Mr. DAUB. It may be in the record of the 26,000 pages you submitted, but the minority has not yet seen a copy of that particular instrument.

And second, would you provide us with a copy of the Grosvenor subsidization arrangements, for the record, which will be kept confidential, as far as we are concerned.

Mr. GOULETAS. I would be more than elated to do both.

Mr. DAUB. Thank you.

Thank you, Mr. Chairman.

Mr. ROSENTHAL. Without objection, it will be included in the record at this point.

[American Invsco's special assistance lease and Grosvenor subsidization data follow:]



MODIFICATION AND AMENDMENT OF LEASE

THIS MODIFICATION AND AMENDMENT OF LEASE, made this \_\_\_\_\_ day of \_\_\_\_\_, 1980, between PROMENADE ENTERPRISES LIMITED PARTNERSHIP, an Illinois Limited Partnership (hereinafter referred to as the DEVELOPER), and \_\_\_\_\_, Tenant of Unit Number \_\_\_\_\_ (Existing Lease) (hereinafter referred to as the LESSEE).

By lease dated \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, LESSEE leased the premises identified as Unit Number \_\_\_\_\_ in the apartments commonly known as the Promenade and located at 5225 Pooks Hill Road, Bethesda, Maryland, said Unit and premises being as described in said lease.

Subsequent to the execution of the aforesaid lease, Promenade Towers Mutual Housing Corporation has become the owner of the Promenade located at 5225 Pooks Hill Road and has succeeded to all of the rights, interest and title of the former owner and lessor.

PROMENADE ENTERPRISES LIMITED PARTNERSHIP (DEVELOPER) is the owner of all the outstanding stock and occupancy rights in the above captioned premises.

On or about June 23, 1980, Promenade Towers Mutual Housing Corporation assigned all of its rights, interests, and title in all of the existing and future residential leases to the premises located at 5225 Pooks Hill Road to Promenade Enterprises Limited Partnership.

The DEVELOPER has offered a Special Assistance Program for qualified residents which enable such residents to lease a unit for a period not to exceed two (2) years.

LESSEE has applied and been approved for the DEVELOPER'S Special Assistance Program.

As the LESSEE desires to obtain the benefits of and participate in the DEVELOPER'S Special Assistance Program and modify and extend the existing lease for said apartment unit pursuant to that program, the DEVELOPER as Lessor and Lessee are mutually desirous of modifying and amending the aforesaid lease as hereinafter set forth.

NOW, THEREFORE, in consideration of Ten Dollars (10.00) each to the other in hand paid, receipt of which is hereby acknowledged, and in consideration of the mutual covenants herein contained and other good and valuable consideration, the sufficiency of which is hereby acknowledged, it is covenanted and agreed between the parties that the aforesaid lease be amended and modified as follows:

1. PREMISES - The premises subject to the Lease is known as Unit Number \_\_\_\_\_.

2. TERM - The previous term of the existing lease is hereby replaced by the following term. The term of this Lease shall be for \_\_\_\_\_ months beginning on the \_\_\_\_\_ day of \_\_\_\_\_, 1980, and ending on the \_\_\_\_\_ day of \_\_\_\_\_, 1982.

3. RENT - For the period of \_\_\_\_\_, 1982 through \_\_\_\_\_, 1981, the rent shall be \_\_\_\_\_, payable in equal monthly installments of \$ \_\_\_\_\_; and for the period of \_\_\_\_\_, 1981, through \_\_\_\_\_, 1982, the rent shall be \_\_\_\_\_, payable in equal monthly installments of \$ \_\_\_\_\_.

4. HOUSING CORPORATION - LESSEE acknowledges that the project known as the Promenade is now owned by Promenade Towers Mutual Housing Corporation, and the LESSEE's right to use and occupancy of the premises are subject and subordinate in all respects to the Articles of Incorporation of Promenade Towers Mutual Housing Corporation, the Bylaws of Promenade Towers Mutual Housing Corporation, the Occupancy Agreements between the Shareholders and Promenade Towers Mutual Housing Corporation and to such Rules and Regulations as the Board of Directors of the Housing Corporation may have promulgated or may hereafter promulgate (collectively referred to as Housing Corporation instruments). Any failure of the LESSEE to comply with the provisions of

the Housing Corporation instruments as they are applicable to the premises leases and to the LESSEE's use of the premises shall constitute a default under this Lease.

LESSEE and LESSEE's family and invitees agree to be bound and comply with all rules and regulations and provisions of the Housing Corporation instruments. LESSEE shall indemnify and hold DEVELOPER harmless for any damages directly or indirectly incurred by the DEVELOPER as the result of the noncompliance by any of the aforesaid persons with the provisions of any of the Housing Corporation documents, or any covenant of the Lease, excepting such damages caused by the negligence of the DEVELOPER, its employees or agents.

5. ASSIGNMENT - The DEVELOPER shall have the right to assign this Lease, and in such event the DEVELOPER shall provide the LESSEE with the name and address of the new Lessor.

6. ELEGIBILITY - It is understood by the parties that the DEVELOPER's Special Assistance Program is based upon certain criteria and that the qualification of LESSEE as a "Qualified Resident" for such program and for this Lease is made on the basis of information presented by the LESSEE. If at any time subsequent to the execution of this Modification and Amendment of Lease, the LESSEE ceases to be a "Qualified Resident," or in the event it is found that any of the information provided by LESSEE upon such qualifications was determined to be incorrect, and that Tenant was not or ceases to be a "Qualified Resident," this Lease may, at the option of DEVELOPER, upon the giving of sixty (60) days' written notice to the LESSEE, be terminated.

7. CONTINUATION OF OTHER LEASE TERMS - All other terms and conditions of the existing Lease, except as specifically amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, The parties have hereunto set their hands and seals as of the date first set forth above.

WITNESSETH:

PROMENADE ENTERPRISES LIMITED  
PARTNERSHIP; DEVELOPER

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(SEAL)

WITNESSETH:

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\_\_\_\_\_  
Lessee (SEAL)

**Lessee**

\_\_\_\_\_  
 Lessee (SEAL)

**Lessee**

GROSVENOR SUBSIDIZATION DATA  
FOR SPECIAL ASSISTANCE UNITS  
PURCHASED BY AMERICAN INVSCO EMPLOYEES

During the hearings of the Subcommittee on Commerce, Consumer and Monetary Affairs held on April 1, 1981, there was testimony that purchasers of Special Assistance units at the Grosvenor Park condominiums in Rockville, Maryland subsidized the tenants of these units. "Special Assistance unit" refers to a unit on which a lease was extended under the Developer's Special Assistance Program in order to accommodate a tenant with a physical or financial disability. Most of the units participating in the Special Assistance Program at the Grosvenor were purchased by American Invsco employees. At the hearings, Congressman Daub requested that American Invsco submit data on the amounts by which these purchasers subsidized the tenants of their units.

The attached chart indicates, for each Special Assistance unit purchased by an employee of American Invsco, the amount of rent lost by the owner on a yearly basis as a result of participation in the Developer's Special Assistance Program. The chart shows for each such unit the actual monthly rent charged under the Special Assistance lease and the fair market monthly rent for a comparable unit in the Grosvenor.

GROSVENOR SUBSIDIZATION DATA FOR SPECIAL ASSISTANCE  
UNITS PURCHASED BY AMERICAN INVSCO EMPLOYEES

Unit	Reason for Special Assistance	Actual Monthly Rent Paid by Tenant 1/	Fair Market Monthly Rent (Based on Comparable Units)1/	Annual Rent Loss as a Result of Par- ticipation in Special Assistance Program 2/
1	Age	\$ 431.00 474.00	\$ 590.00 650.00	\$ 1,959.00
2	Physical Illness	518.00 518.00	682.00 750.00	2,172.00
3/				
3	Age	220.00 262.00	341.00 375.00	1,436.00
4	Age	221.00 243.00	341.00 375.00	1,464.00
5	Age	420.00 462.00	590.00 650.00	2,094.00
6	Age	425.00 468.00	590.00 650.00	2,082.00
7	Age	298.00 328.00	455.00 500.00	1,974.00
8	Age	397.00 437.00	545.00 600.00	1,866.00
9	Age	420.00 462.00	590.00 650.00	2,148.00
10	Age	302.00 332.00	455.00 500.00	2,226.00
11	Physical Illness	285.00 314.00	432.00 475.00	1,848.00
3/				
12	Age	397.00 437.00	523.00 575.00	1,536.00

ALL FIGURES ARE FOR FIRST YEAR OF  
OWNERSHIP OF THE UNIT.

Unit	Reason for Special Assistance	Actual Monthly Rent Paid by Tenant 1/ 4/	Fair Market Monthly Rent (Based on Comparable Units) 1/ 5/	Annual Rent Loss as a Result of Par- ticipation in Special Assistance Program 2/
13	Age	\$ 298.00	\$ 455.00 500.00	\$ 1,205.00
14	Physical Illness	309.00 340.00	477.00 525.00	2,118.00
15	Age	302.00 332.00	455.00 500.00	1,881.00
3/ 16	Age	323.00 355.00	455.00 500.00	1,649.00
17	Age	5/ 5/	455.00 500.00	1,252.50
18	Age	383.00 421.00	545.00 600.00	1,995.00
19	Age	391.00 430.00	765.00 850.00	4,718.00
3/ 20	Age	397.00 437.00	545.00 600.00	1,851.00
21	Physical Illness	420.00 462.00	590.00 650.00	2,094.00
3/ 22	Physical Illness	425.00 468.00	590.00 650.00	2,065.00
23	Physical Illness	237.00 261.00	341.00 375.00	1,268.00
24	Age	5/ 6/	545.00 600.00	770.00

ALL FIGURES ARE FOR FIRST YEAR OF  
OWNERSHIP OF THE UNIT.

Unit	Reason for Special Assistance	Actual Monthly Rent Paid by Tenant 1/	Fair Market Monthly Rent (Based on Comparable Units)1/	Annual Rent Loss as a Result of Par- ticipation in Special Assistance Program 2/
25	Age	\$ 395.00 435.00	\$ 568.00 625.00	\$ 2,110.00
26	Age	284.00 312.00	409.00 450.00	1,539.00
27	Age	302.00 332.00	455.00 500.00	2,183.00
<u>3/</u> 28	Age	375.00 413.00	545.00 600.00	2,091.00
<u>3/</u> 29	Physical Illness	256.00 282.00	363.00 400.00	1,328.00
30	Age	300.00 330.00	500.00 550.00	2,460.00
31	Age	256.00 282.00	409.00 450.00	1,881.00
32	Physical Illness	244.00 282.00	409.00 450.00	1,998.00
33	Age	350.00 385.00	500.00 550.00	1,890.00
<u>2/</u> 34	Age	279.00 307.00	500.00 550.00	1,414.00
				<u><u>\$ 64,565.50</u></u>

ALL FIGURES ARE FOR FIRST YEAR OF OWNERSHIP OF THE UNIT.



FOOTNOTES

NOTE: All figures are for the first year of ownership of the unit.

- 1/ Two rent figures are shown - the first figure was applicable until November 1980. The second figure applied to the remainder of the first year of ownership.
- 2/ The rent loss figure was computed by subtracting the actual rental from the fair market rental for each month of the first year of ownership. The sum of these monthly figures is the first year differential.
- 3/ Projected figures were used when actual information was unavailable - this applied to the second rent figure and mortgage payment amounts only.
- 4/ Rent for this unit was \$298.00 per month until 9/80. No rent was collected in 10/80. Since 10/80 the rent has been \$430.00 per month. No rent at all was collected until 5/80.
- 5/ Rent for this unit was \$110.00 on 12/20; \$300 per month for 1/80 - 7/80. No rent was collected in 8/80 or 9/80. Since 10/80 the rent has been \$160.00 per month.
- 6/ Rent for this unit was \$451.00 per month until 6/80. No rent was collected in 7/80. Since 8/80 the rent has been \$550.00 per month. No rent at all was collected until 2/80.
- 7/ This unit was not purchased until 9/80. Rent differential is reflected for six months only.

Mr. ROSENTHAL. Mr. Conyers?

Mr. CONYERS. Thank you, Mr. Chairman.

I, too, join in welcoming the witness and his two distinguished associates and counselors. Our former colleague, Mr. Ashley, has, for a quarter of a century, contributed in the Congress, and I am happy to find that he has quickly been gainfully employed in the private sector.

Let me ask you about one particular point that may be of some interest. That is the Federal interest in condominium conversion. Section 603 of the Housing and Community Development law expressed a sense of the Congress that lending by federally-insured lending institutions for condominiums should be discouraged where adverse impacts on housing opportunities of low income, elderly, and handicapped tenants may be involved. What was your role in that particular activity?

Mr. ASHLEY. I did not think there was an appropriate role for the Federal Government, other than in the three substantive amendments that I referred to in my testimony.

Quite frankly, it was felt by my associates on the conference that we might accede to a sense-of-the-Congress resolution inasmuch as it was not binding. Therefore, in the spirit of sweet compromise as chairman of the House conferees, I acceded to that language.

I think it is appropriate to express a congressional concern with respect to displacement. I did not think—and this is quite clear—that a sense-of-the-Congress resolution, such as you describe, contained in last year's Housing Act would carry the force of law. That is to say, whether it be the Federal Home Loan Bank Board, or the Federal Reserve, or anybody else, they really are not bound to seek a solution to the displacement problem by virtue of the language contained in that provision.

Mr. CONYERS. Then you were opposed to it, or at least had reservations about making any more than a sense-of-the-Congress provision, and why? Would it, in stronger form, have worked some hardship on the real estate business?

Mr. ASHLEY. No. You see, we had addressed ourselves to this, Congressman, in other forms. As a matter of fact, in last year's Housing Act, I had authored a direct intervention middle-income housing program, and that was rejected by the Senate conferees.

It seems to me that if we want to do something on the supply side, one way to do that, because of the problem with the tax laws, the problem of creating private incentives, is to modestly initiate a rental program for somewhat higher income levels than the 80 percent of median that qualified for section 8. That was rejected. In other words, the direct intervention route was rejected.

I was among those conferees on the House side who said:

Under no circumstances are we going to allow a form of intervention that skews and torments the operation of the private marketplace by virtue of the types of Senate provisions contained in the title that they had come to the conference with.

So that was rejected.

Mr. CONYERS. I see. I do not want to go into that any further. But it was a little confusing to me that one in the Congress whom I remember as, specifically, across the years, championing low-cost housing, equal access, and fair opportunity, would have been opposed to the provision that I cite.

Mr. ASHLEY. Let me just amplify that. I simply want to emphasize that, over the years, that has been the record, and for good reason. It was through my auspices that section 8 housing and section 235 housing have been made available on a first preference basis for those who have been displaced from rental housing.

People who live in rental housing do not have a lifetime lease on it. If they are displaced, whether it is by condominium conversion or by Federal highway activity, or for a variety of other reasons, it was felt that displacees should have first call on that housing subsidized directly by the Federal Government.

Mr. CONYERS. Very good.

Mr. Gouletas, you stated earlier that there were some cities in the United States that condominiums have saved. Do you recall that statement?

Mr. GOULETAS. Yes, I do.

Mr. CONYERS. Would you elaborate on it and perhaps name a few such cities?

Mr. GOULETAS. As a matter of fact, we converted a building called the Carol in New Orleans. Speaking about costs for a second, if I may, I was speaking to Moon Landrieu, at that time Secretary of Housing and Urban Development. He said:

You know, Nick, you made those units available in a luxury building to those people for less money than what I am building a HUD project for right down the street.

That is the only project that we have done up to this point in New Orleans. I have had many comments saying: "Please do some more in New Orleans because it did definitely help."

In Chicago, there is absolutely no doubt that it has transformed the North Side and is now starting to transform the northwest side of the entire city into a viable, living community.

Mr. CONYERS. Any other cities?

Mr. GOULETAS. We have not done that many conversions in any other cities at the present time.

Mr. CONYERS. Thank you.

With regard to the question of risk that was entertained here earlier, I have a list of properties completed, provided, well, I will not say with your cooperation. I think this was in conformance with the subpoena process. But we have here DeWitt in Chicago; Wellington, Chicago; Outer Drive East, Chicago; Harbor House, Chicago; East Bellevue, Chicago; Lakeview, Chicago; Georgetown of Nashville; Carriage Hill of Arlington, Columbus, Ohio; Imperial Towers, Chicago; Lakewood, Ohio; Houston; St. Petersburg; and New York. The purchase prices total \$134,265,878. The selling prices are listed under income: \$217,611,000. The gross differential profit is \$83,345,122. Apparently the gross profit is 62 percent.

Would you comment on the risk involvement in the light of this submission?

Mr. GOULETAS. No. 1, Congressman, let me correct you, if I may.

Mr. CONYERS. Please do.

Mr. GOULETAS. The difference between purchase price and offering price on a product that you put out one by one—and those are thousands of units—definitely does not represent profit. Those are gross prices. They do not indicate any discounts. The discounts, as I mentioned before, may go from as little as 5 percent to, and I want to be accurate, it was 29 percent, or almost 30 percent. The refurbishing in some of those buildings went into the millions of dollars.

The cost to do business has been submitted to the Congress. If that is your question, Congressman Conyers, in all completed projects which, by the way, are not done overnight—it takes an average of somewhere between 2 to 3 years to complete a project after acquisition, which can take 6 months minimum to 2 years—the net profit to American InvSCO and its affiliates, with all the expenses and profits that they might have derived therefrom, therefore not leaving anything out, was 15.8 percent.

Mr. CONYERS. What was the total figure on which the 15.8 percent was computed?

Mr. GOULETAS. On all concluded projects on an aggregate basis, which ran into the millions of dollars. You have the figures.

Mr. CONYERS. In case it is not in the hundreds of thousands of pages provided us, and in case you do not recall it now, would you submit it?

Mr. GOULETAS. It is. I can guarantee you, Congressman Conyers, it is. And I would be elated to resubmit it.

Mr. CONYERS. Do you know what it is?

Mr. GOULETAS. It is 15.8, Congressman Conyers, 15.8 percent is our net profit on conclusion of all projects, including, because Congressman Rosenthal had an interest—does that include any profits made by any of the American Invsco-affiliated companies—including any profits made by any American Invsco affiliates.

If you really want to know who profits, the residents profit. They make the biggest profit possible.

A case in point is the 400 Plaza. Many of the residents in that particular building, even though the units were selling for almost \$200,000 apiece, were reselling some of those units for somewhere between 60- to 100-plus percent profit within 30, 60, and 90 days after they closed.

Mr. CONYERS. Thank you very much.

Let me ask you this, Mr. Gouletas. The 15 percent profit—

Mr. GOULETAS. 15.8, a little bit under 16.

Mr. CONYERS. I see. Thank you very much. That 15.8 percent, a little bit under 16 percent, is 15.8 percent of what gross figure?

Mr. GOULETAS. The gross sales figure of all product involved.

Mr. CONYERS. How much is that?

Mr. GOULETAS. I do not have the gross sales figures.

Mr. CONYERS. Do you know?

Mr. GOULETAS. Do I know what?

Mr. CONYERS. Do you know what the gross figure on which is based the 15.8 percent, or a little bit under 16 percent profit?

Mr. GOULETAS. We would be glad to supply you that.

Mr. CONYERS. I said, do you know what it is?

Mr. GOULETAS. No; I do not know, sir.

Mr. CONYERS. All right.

[The information referred to follows:]

LAVENTHOL &amp; HORWATH



CERTIFIED PUBLIC ACCOUNTANTS

111 EAST WACKER DRIVE  
CHICAGO, IL 60601  
(312) 844-4570

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WITH AFFILIATED OFFICES WORLDWIDE

*Delivered to  
Supermarket  
10/27/80*

Board of Directors  
American Invsco Corporation  
Chicago, Illinois

We have examined the financial statements of American Invsco Corporation and NTHC, Inc. and their subsidiaries and affiliated partnerships for the year ended November 30, 1979 and have issued our report thereon dated April 28, 1980. The primary purpose of that examination was to formulate an opinion on the basic financial statements taken as a whole.

The accompanying summaries of sales and costs to date, although not considered necessary for a fair presentation of financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles, is presented for supplementary analysis purposes. Such information has been subjected to the audit procedures applied in the examination of the basic financial statements.

In our opinion, such supplementary data are presented fairly in all material respects in relation to the basic financial statements taken as a whole.

*Laventhol & Horwath*

October 23, 1980

AMERICAN INVSCO CORPORATION AND NTHC, INC. AND  
THEIR SUBSIDIARIES AND AFFILIATED PARTNERSHIPS

SUMMARY OF PROJECT TO DATE SALES AND COSTS

NOVEMBER 30, 1979

	<u>Amount</u>	<u>Percentage of sales</u>
Completed projects:		
Sales	\$189,702,000 (A)	100.0%
Costs	<u>160,070,000</u>	<u>84.4</u>
Gross profit before minority interest and income taxes	<u>\$ 29,632,000</u>	<u>15.6%</u>

Note (A): The length of time required to reach a level of 95% of a project's unit sales from the date of acquisition ranged from ten months to fifty-seven months. For 90% of these projects, the minimum time required to reach the 95% level was fourteen months, and for 70% of these projects the minimum time required was nineteen months.

AMERICAN INVSCO CORPORATION AND NTHC, INC. AND  
THEIR SUBSIDIARIES AND AFFILIATED PARTNERSHIPS

SUMMARY OF PROJECT TO DATE SALES AND COSTS

NOVEMBER 30, 1979

Projects in process:	
Sales	<u>\$327,387,000 (A)</u>
Costs	<u>\$403,933,000</u>

Note (A): For those projects achieving a level of 95% of units sold as at November 30, 1979, the length of time required from the date of acquisition ranged from fourteen months to thirty-three months. For 90% of these projects, the minimum time required to reach the 95% level was fifteen months, and for 70% of these projects the minimum time required was sixteen months.

Mr. CONYERS. Finally, the conversion expense that was the subject of extensive discussions with your lawyers and our staff, has that ever been submitted?

Mr. GOULETAS. If you will look back at the minutes of the full committee meeting, I think an agreement was arrived at between the full committee meeting and American InvSCO in reference to that question.

Mr. CONYERS. I see. So, were they submitted, pursuant to that agreement? In other words, pursuant to the agreement that you are referring me to, does this subcommittee now have the expenses that are involved in the conversions of completed properties?

Mr. GOULETAS. Yes, absolutely.

Mr. CONYERS. I see. So we have those expenses?

Mr. GOULETAS. Absolutely.

Mr. CONYERS. All right. That is fine.

Mr. FITZPATRICK. Mr. Conyers?

Mr. CONYERS. Yes? Would you identify yourself?

Mr. FITZPATRICK. Yes. My name is Jim Fitzpatrick. I am counsel to American InvSCO.

We submitted precisely the data that were requested pursuant to the agreement made with the full committee. Those data were tendered to this committee on time. In fact, the specific cost data in connection with the Promenade were excluded from that agreement. The full committee did not direct us to turn over specific cost or profit figures for individual projects.

Mr. ROSENTHAL. The time of the gentleman has expired.

I want to correct the record, Mr. Fitzpatrick. The original subpoena that was served and voted by the subcommittee and the full committee did call for that material. However, at the time of the



motion to punish for contempt, an agreement was reached that there would not be execution of the contempt motion under the nature and character of the agreement. That is what it provided.

Mr. FITZPATRICK. There was a clear agreement, to which you agreed, Mr. Rosenthal, that we need not turn over these data.

Mr. ROSENTHAL. We agreed that he would not be punished for contempt if material of only the cost and the selling price was turned over to the committee.

Mr. FITZPATRICK. There was full resolution of that issue, Mr. Rosenthal.

Mr. ROSENTHAL. Let us understand each other. There was no agreement at that time that the question would not be asked today, would not be appropriate today, and would not be an appropriate question for future consideration by the committee for whatever action it wanted to take.

Mr. FITZPATRICK. We read the decision of Mr. Brooks, Mr. Horton, and you to resolve that issue definitively—that project-by-project cost and profit data need not be turned over, and that only individual purchase price(s) and sales revenues to date be turned over on a per project basis.

Mr. ROSENTHAL. Is that the way you read it?

Mr. FITZPATRICK. I think that is the way the transcript reads as well. That is indeed the way we read it, sir.

Mr. ROSENTHAL. Well, that is dictum for me, I will tell you. Mr. Neal?

Mr. NEAL. Is American Invsco a privately held company?

Mr. ROSENTHAL. Yes.

Mr. NEAL. It is not a publicly held company?

Mr. ROSENTHAL. Right.

Mr. NEAL. What business do we have subpoenaing private information from a privately held company?

[Applause.]

Mr. NEAL. Let me just say, I am not interested in any applause. Who are all these people who are applauding?

Mr. ROSENTHAL. That is what we would like to find out.

Mr. NEAL. Let me tell you, I think that is quite out of order.

I just do not understand what our authority is. Do we do this to other private companies in our society?

Mr. ROSENTHAL. I would be happy to respond to that. We have never done that. We have decided to make an examination of the condominium movement, and American Invsco was portrayed to us and, in fact, is, I think, acknowledged as the largest converter in the country. To understand the inflationary aspects, it was absolutely essential to know exactly what the profit picture was, the cost, and the sell-out of each one of the condominiums. It goes into the tens and hundreds of millions of dollars in many cases.

The subpoena was executed asking for that information. When the time came to punish for contempt, an agreement was reached between the committee and counsel, Mr. Fitzpatrick, as he accurately portrays, not to proceed and not to push for that information, the profit picture information. They agreed to furnish that information as to the purchase price and the gross profit and whatever conjecture anybody wanted to make as to the profits, they could.



But in terms of a distinction between a public company and a private company, I, myself, do not see the distinction. Public companies, of course, have to file with the SEC, and all that information is given voluntarily.

In the State of New York, when they filed for the two applications to proceed for Plaza 400 and 900 Park Avenue, they did, in fact, provide this information to a public agency. We subpoenaed that information from the public agency, and we have that information in our files.

But I thought it would be in their interests to tell us the costs of doing these things so that there would not be an implication that the profits ran to excessive amounts.

Let me go through this so that I can fully explain this to you. The gross profit on Plaza DeWitt was \$8 million. The gross profit on Outer Drive East was \$6 million. The gross profit on Harbor House was \$3 million. The gross profit on East Bellevue was \$5,900,000. The gross profit on 2626 was \$7,000,776. The gross profit on Georgetown National was \$2,215,000. The gross profit on Carriage Hill, Columbus, was \$1,906,000. The gross profit on Imperial Towers, Chicago, was \$11,900,000.

Mr. FITZPATRICK. Mr. Chairman, these are confidential data, please.

Mr. ROSENTHAL. This is not confidential information.

Mr. FITZPATRICK. These are data that were submitted to the committee in confidence, and the agreement with you was that there would be a vote of the subcommittee before these data were released.

Now, I ask you, has there been a vote of the subcommittee that these data be released?

Mr. ROSENTHAL. The confidential information was the cost of conversion. It was my view that you would be interested in providing that information so that the implication to the public was that you did not make an excessive profit. I assume you did not. I assume the 15.8 figure is an accurate portrayal.

Mr. Neal?

Mr. NEAL. If the Chairman would yield, I have one point.

Mr. ROSENTHAL. Certainly.

Mr. NEAL. Did the witness testify that the net profit was 15.8 percent on gross sales?

Mr. ROSENTHAL. On gross sales.

Mr. NEAL. Even though we do not know the amount of gross sales, and I still question whether it is any of our business what kind of profit an individual makes, or what kind of salaries individual people in our society make, and so on, did they not testify under oath that profits are 15.8 percent of gross sales?

Mr. ROSENTHAL. That is right.

Mr. NEAL. Then, what is the issue? That is providing more information than we request of any other privately held business that I know of.

Mr. CONYERS. If the gentleman would yield, I would like to refresh my colleague's memory. This is not the first time in the Government Operations Committee nor in the Congress that these kinds of records or information have been required in the course of an oversight hearing.

As a matter of fact, the gentleman is raising something that even Mr. Gouletas and his counsel have all resolved quite some time ago. The court intervened. We have a court decree involved.

It seems to me that the gentleman's shock at wondering why we are asking these questions comes a little late, but I still think it is important that he fully understands whenever it occurs.

In the hearings before the Subcommittee on Crime, with the Energy Subcommittee, we have gone into the profits and activities and the gross profits and the operational expenses of many of the oil companies as a matter of course.

Mr. NEAL. They are a matter of public record.

Mr. CONYERS. Some are, and some are not.

The problem that we are faced with here is that this corporation is using money that comes from banks, and savings and loans that are federally insured and have a very direct governmental impact on the policies that we make as lawmakers and upon the effects of the consuming public in the housing market.

Mr. ROSENTHAL. Mr. Neal, are you satisfied now?

Mr. NEAL. Mr. Chairman, let me respond to your question, if I may. I am a new member of the subcommittee, and it has been my impression from reading reports of the subcommittee's activities that we are trying to get at, No. 1, problems caused by displacement of individuals in the process of condominium conversion and that we are trying to get at some alleged improprieties of this particular company.

It would seem to me that it would be most helpful to direct some questions to the specific concerns and try to get to the bottom of them. And it does not seem to me that we are getting there.

Mr. CONYERS. It was you who interrupted the process of the members asking questions of the witness.

Mr. NEAL. I was just trying to respond to the chairman's question. His question to me was, was I satisfied, and I was trying to respond to that. I am not satisfied that we are getting any relevant information.

Mr. CONYERS. Maybe when your turn comes to ask questions you will be able to get more than we have been able to get.

Mr. ROSENTHAL. Mr. Clinger?

Mr. CLINGER. Thank you very much, Mr. Chairman.

As another new member of the subcommittee, it was my understanding that this agreement with regard to the disclosure was made at the full committee level. Is that correct, Mr. Chairman?

Mr. ROSENTHAL. No.

Mr. CLINGER. The agreement was not made at the full committee level?

Mr. ROSENTHAL. I tried to explain it as best I could. Maybe I did not do a very good job on it. The original subpoena that was served on Invsco, voted by the subcommittee and the full committee, called for the purchase price, the selling price, and the gross and net profit for each project.

When the time came to punish Mr. Gouletas for contempt of Congress for failure to deliver any information or to deliver that specific information above the 26,000 documents, including tennis books and other interesting articles the committee, in an effort to

avoid a contempt of Congress citation, agreed to accept less material than was contained in the original subpoena.

I was a party to that agreement, as was the distinguished chairman of the full committee, Mr. Brooks, who is present, and the distinguished minority ranking member, Mr. Horton, who is present.

In an effort to avoid the contempt process going forward, with the cooperation and assistance of Mr. Levitas, the subcommittee and the full committee agreed to accept less information, less material, than was in the original subpoena. That was the agreement. It was a wise, prudent, and thoughtful agreement, and it avoided a lot of additional aggravation that the Congress did not need. We felt that the information was satisfactory.

That in no way, Mr. Fitzpatrick, precludes the asking of other questions that are totally new and created for this occasion. If those questions are relevant to these proceedings and they are not answered, then that matter would be subject to further inquiry by the committee.

Mr. FITZPATRICK. Mr. Rosenthal, we thought the resolution was clear. We had a long and heated disagreement on the question of individual cost components on various projects. The issue was fully presented to the full committee after your subcommittee had considered the issue. It was our position that the individual cost elements and the profitability of particular projects was beyond the relevant scope of this subcommittee's investigation. We never reached that issue as a matter of law.

There was a compromise reached, and we considered that to be a definitive compromise in terms of our obligations. Under that compromise, we agreed to turn over the individual purchase price of each project and the cost and the revenues to date on each of these projects. We made that commitment to Chairman Brooks, and that was complied with.

Those data were turned over on time, and we considered that definitively resolved the issue of our obligation to turn over these terribly sensitive, competitive data on how we do business.

We have turned over data on our aggregate costs and our aggregate revenues on 15 completed projects. As Mr. Gouletas has indicated, there is a 15.8 percent profit there.

We objected quite strenuously, and we would continue today to turn over individual cost elements and profitability on a per project basis because we think that is the heart of our business, and we think that the aggregate data that we have turned over satisfied the earlier committee request, and we think that that earlier agreement should be honored.

Mr. CONYERS. Mr. Chairman, the counsel is partially correct. The data that have been turned over, that I read and elicited responses from the witness on, are information that was furnished by virtue of these negotiations. There is nowhere contained in the agreement or any oral discussions that the material was private, or secret, or confidential in any respect.

So we had forthcoming a response from the witness on his part that it was 15.8, not 16, percent gross profit. That figure is a figure he has voluntarily submitted for which, to this day, this subcom-

mittee has no proofs whatsoever. We have accepted that figure because the witness, under oath, has given us that information.

Mr. ROSENTHAL. No one is pushing the point now.

Mr. FITZPATRICK. I think there is one point in terms of confidentiality.

Mr. ROSENTHAL. Let me say this. There is, I think, a reasonable dispute here. You would like to interpret the agreement as most favorable to your client. I think that is going beyond what the agreement was. But I am not so sure that this matter is going to become relevant any further to this inquiry.

Mr. FITZPATRICK. Could I just make this point? In terms of confidentiality of these data that we turned over—and this is responsive to Mr. Conyers' point—on October 2, in the transcript of the subcommittee's proceedings, this issue of the confidentiality of the data that we turned over was expressly discussed by the committee. I am reading from the transcript. Mr. Barash said: "We have assured them."

Mr. CONYERS. Counsel, you know full well that that agreement was superseded by the subsequent agreement made at the full committee level.

Mr. FITZPATRICK. Not in terms of confidentiality, sir. The agreement was: "We have assured them we will treat all this information with the greatest sensitivity, and I think our records make that a rather credible comment." Then Mr. Rosenthal, on the question of confidentiality, said this: "And the subcommittee will vote to release that information, but it will be up to the subcommittee."

I just want the record to be quite clear in terms of the issue of the confidentiality of the data what Mr. Rosenthal said.

Mr. ROSENTHAL. That was the material we never got.

Mr. FITZPATRICK. No.

Mr. CONYERS. And it is not involved in the lists that have been read at this subcommittee proceeding.

Mr. ROSENTHAL. Mr. Clinger's 10 minutes begin now.

Mr. CLINGER. Thank you, Mr. Chairman.

I would like to get back to what I sense is the purpose of these hearings, which is to determine whether or not there is need for Federal legislation in this area. In that regard, I would like to address a couple of questions to our former colleague, Mr. Ashley.

Mr. Ashley, you had indicated that the primary responsibility for such things as disclosure, displacement, and some of these more sensitive issues which we are grappling with here was really a matter for the local community to be concerned with, and that this, in fact, was reflected in a sense-of-the-Congress resolution.

The argument has been made here in earlier testimony that it is unrealistic to think that the State legislatures would act in these areas because they have many rural legislators who are not involved, and that therefore it is unrealistic to think that the State would deal with these matters. Second, the argument is advanced that the local governments are not likely to address these issues because they are more interested in expanding their tax rolls, and certainly conversions, in their view, would enhance the tax revenues to the city that may be involved.

Could you address those two issues?

Mr. ASHLEY. Thank you, Mr. Clinger.

I think the record is quite to the contrary. When we consider that the condominium conversion phenomenon is of relatively short history, about 10 years, with most of the conversions coming in the last 3 years, I think it is quite remarkable—as the HUD study points out—the extent of interest and activity on the part of State and local governments to assess for themselves the types of problems that condominium conversion involves, with particular regard to the problems that relate to specific local communities within the jurisdiction of the State.

My impression is—and this is off the top of my head—that some one-third of the States and local communities have addressed themselves to the matter of displacement notice and other actions relating to conversion. This, it seems to me, is a quite remarkable record in a short period of time, particularly when you take account of the fact that the conversion activity is not uniform across the country but, in fact, is concentrated in a relatively small number of market areas and SMSA's.

I think the very predominant percentage of conversions that has taken place in 12 SMSA's or market areas in the country, together with the Uniform Condominium Act that was approved and is under active consideration in a number of States, does give strong evidence of the ability of local communities and States to take action. The evidence of contrary political pressures, and so forth, just does not seem to me to be there.

Mr. CLINGER. Following up on that, one of the suggestions that has been made here is that we should declare, at a national level, a 2- or 3-year moratorium on any condominium conversion in order to give the Congress and the localities an opportunity to address the problem, and so forth.

What kind of an impact would such a moratorium have, do you think, in terms of the national housing situation?

Mr. ASHLEY. Again, it would be an intrusion into the marketplace and a skewing of the forces of demand and supply, very clearly. This is what I object to in this. Based on my experience in the Congress, it does not work.

If you are trying to provide a remedy for an acknowledged concern, you really do not do it by saying: "Well, we will just stop the forces of supply and demand from working." And that is precisely what is at work here. You see, it would not be new condominium construction that would be under a moratorium, just one aspect of the providing of condominiums to augment supply in response to a very heavy demand. And that is no way to get at the problem that is involved.

Mr. CLINGER. The problem of abandonment, I think, has been raised also in the hearings, particularly, I suppose, in rent-controlled areas whereby, if the conversions are not permitted, is it a correct assumption that there is often an abandonment of the rental property?

Mr. ASHLEY. I think others can speak to that. On the basis of my experience, buildings that are ripe for abandonment are not ripe for purchase for conversion. But what one can say is that in rental properties, where there has been deferred maintenance, where the economics are such that those properties are no longer being im-



proved, there is at work a kind of decay which, if not addressed in one form or another, could well lead to abandonment, which certainly has taken place in such cities as New York, Boston, Detroit, and other communities where literally hundreds and thousands of units a year are disappearing from the rental market scene.

Mr. CLINGER. I have one final question. You indicated that there is at present reduced incentives to construct rental housing. In view of the fact that the HUD study seems to indicate that there has been little diminution of rental housing countrywide, is that situation pretty evenly dispersed across the whole country, or do we have lower numbers of rental properties in some areas and more in other areas?

Second, in view of the fact that there has not been, apparently, a great lessening of rental properties nationwide, do you think there is still a need to provide increased incentives for the construction of rental housing?

Mr. ASHLEY. I think the premise may be just a little wrong. I think that what HUD has said is that conversions have not caused a negative impact of any consequence on the availability of rental space. That is a very different thing from saying that there is an ample supply of rental housing. For the last 10 years there has been a marked decline in investment in rental property.

In those areas where that decline is felt most acutely, there is that added factor which is an inducement, along with many others, for conversion to condominium or cooperative form of ownership.

Mr. CLINGER. Thank you, Mr. Chairman.

Mr. ROSENTHAL. Mr. Atkinson?

Mr. ATKINSON. Thank you, Mr. Chairman.

There was testimony given today about the considerable cost by Invsco for refurbishing and rehabilitating properties. My question is: Have payments for the improvements, the sales fees, and other such expenses been made to Invsco subsidiaries?

Mr. GOULETAS. Congressman Atkinson, No. 1, the figures that were quoted by Congressman Rosenthal as far as profits are concerned, were only a gross figure of the difference between purchase price and sales price. They considered no business expense, overhead, or anything in them.

To answer your question specifically, any profits that were derived by any affiliate of American Invsco were included back into the profit picture to give this Congress accurate cost/profit information.

As a matter of fact, Congressman Conyers was a little mistaken when he said he did not know what the figures were because those figures have all been audited by a major national accounting corporation. So they are all certified figures.

Mr. ATKINSON. Thank you.

The other question, and I do not know if it has anything to do with the inflation question that seems to surround these hearings, is this. Condo conversion has had great impact on a considerable number of the Nation's people. There was a "60 Minutes" episode that took place which brought calls to our office. Allegations were made in the 96th Congress and 97th Congress as far as the situation in Chicago is concerned.

Since I think we are talking about the character of the people involved and the reputation of the business firms involved in this business, the attitude of the sales force, and what is behind the effort to sell, I think it is only fair to you, some response should be permitted.

I am talking about the Chicago Tribune story where suggestions were made last year which alleged that the company had given special treatment to a Mr. Tully because of his role as tax assessor, I believe, and the tax treatment that he supposedly conferred, and the fact that he benefited personally from it. Would you care to comment on it?

Mr. GOULETAS. I have been waiting 6 months to comment on that. Thank you for bringing it up.

No. 1, on the comments that were made on "60 Minutes," as a matter of fact, the family that appeared on "60 Minutes," I believe that many of those comments were not made against the condominium conversion industry. As a matter of fact, the assistance that we tried to provide to that family was appreciated.

We have a letter written by that family thanking us for the assistance and also describing our associate as the most courteous, helpful associate that they have ever met.

Also, in reference to the phone call made to California, the phone call was made at the request of the family that was on "60 Minutes." We appreciate their letter thanking us for our courtesies.

Now to get to the Tully matter, which I appreciate being brought up. Mr. Tully purchased approximately five or six units from the company after he had announced that he would no longer run for assessor, he was not going to be in public office.

Inadvertently, we had a new sales manager in one of our projects where Mr. Tully did purchase a unit, and that at an approximately \$3,000 discount because his contract was put in with the contracts of associates that had purchased.

All this information has been turned over to the U.S. attorney. Voluntarily, we have turned over every piece of information and every file. They have had it for the last 6 months. The U.S. attorney has given us a letter saying that, after having it and after having researched it for the last 6 months, they have found that American Invsco is not under any violations and they have found none.

As a matter of fact, to take it one step further, the present assessor and his attorney went out and looked at the alleged property that we, as investors, only own one-third of, to see if there was anything wrong done there. He publicly stated that, No. 1, the assessments were correct; No. 2, that while Tully was in office we had a 60-percent increase in the 3 years he was in office. That is approximately 20 percent per year. I think that if anyone got that kind of an increase per year on his house, he would be considerably upset about it. So they came out and said it was proper by all means.

I hope I have answered your question, and I thank you for asking it.

Mr. ATKINSON. You are welcome.

There is one other area. I hope I do not infringe on the private sector, which I have some great reservations about to begin with. You mentioned the thoughts were that luxury buildings primarily are those that are put into a condo or cooperative situation.

You mentioned earlier your conversation with Moon Landrieu and the HUD properties. And we know what is happening to much of the public housing in this country. It is subsidized, and it is costly.

Mayor Byrne is moving into a place called Cabrini-Green, a housing project in Chicago, which I am sure you are familiar with, with some 17,000 people.

I have heard rumors that maybe you have a plan in that particular area. I am wondering, if that is the case, what you feel the impact might be on the neighborhood, since we are talking very strongly now about what the impact has been with citizens, as well as the inflationary question, and whether these are costly to the Government, or whether or not there would be a better method to be used.

I can cite an example back home, a very small area of 250 homes that were federally owned and built during the war. People got together and formed a cooperative, and it became private housing as opposed to public housing. Instead of that community now having public housing which paid no taxes, they now pay as private homeowners full tax, which is of great benefit.

Do you wish to comment on that area at all?

Mr. GOULETAS. I would love to comment on that, not that I have all the answers. I do not know that anyone has all the answers. However, I know, just like your community, London has come to the same conclusion, that there is a pride, and I do not know that you can actually put a dollar figure on pride, but there is a pride of ownership, of having something that is yours.

I believe, yes, that even a Cabrini-Green which, at the present time, is a negative asset, not a positive asset, to the Government could supply pride and opportunity for those people living in those buildings. I would like to outline a brief program, and maybe Congress will consider it.

If you take a look at projects such as this, they are not paying taxes, you are supporting them, and they are deteriorating, to the degree that some cities found it necessary to blow them up. That should not be necessary. That is an asset. You have physical value in that asset.

I believe that that asset could be a wonderful start for a lot of people. A program that I would recommend is to take it building by building, situate the people who are living in that building into the other buildings, there are definitely vacancies, and refurbish the buildings. Bring them up to pride units and safe.

Then, allow the people who are living in the total project, the ones that are willing to go to work, the ones that are willing to make some payments, and allow them to purchase at only the cost of the refurbishing, whatever it costs us to refurbish. Allow them to have those buildings. If they are willing to go to work and make their own payments, they can own their units.

Hold that deed for a couple or 3 years to make sure that they have fulfilled their obligation, and then turn it over to them. Let



them have the pride of ownership. I believe some of those people would go out and take jobs because they can see that now they are going to get something for it. Those people will pay rents, and those people will have pride of ownership.

I believe you can go through project after project and turn them back over to the public and have them own those units. You will find that they care for those units, they love their units, and they are their homes.

Mr. ROSENTHAL. The time of the gentleman has expired.

Mr. ATKINSON. Then let me conclude. May I ask one thing? The gentleman suggested that he would submit such a plan. I am just thanking him for his expertise in this area. If he wishes to submit such a plan, I, as a Member of Congress, would like to have it.

Mr. GOULETAS. I would love to submit such a plan, and I would give it to you in detail. I think it could be very beneficial for America.

Mr. ATKINSON. Thank you.

Mr. ROSENTHAL. Mr. Hiler?

Mr. HILER. Thank you, Mr. Chairman.

Mr. Ashley, in your opening statement, you indicated that if we were to impose controls in the condominium conversion area at the Federal level, there would be a basic restructuring of the entire housing industry. Would you comment further on that?

Mr. ASHLEY. What page do you find that on?

Mr. HILER. It was in your oral presentation. I took notes on it.

Mr. ASHLEY. I think what I was referring to is that it would be a departure from five decades of housing policy. We have had two kinds of intervention at the Federal level. One is an indirect kind of Federal intervention, and the other is a direct kind of Federal intervention. They are used under certain specific circumstances where the Federal Government seeks to create a market, which it does through a section 8 public housing type program, in order to provide shelter for people who cannot afford it on the private market. And the Federal Government has every reason and responsibility to make sure that those units remain as rental units.

The situation is quite to the contrary with respect to the indirect kind of intervention that takes place when we are dealing with the private, conventional marketplaces in housing and the financial markets. There we have not, over the years, intervened directly. We do not go in and prohibit certain activities in the private financial and housing markets. We have been very reluctant to do that because we have not created those markets. Those markets are created by the forces of supply and demand.

What I am saying is, should we choose now to intervene directly, where in the past we have intervened only indirectly with respect to the conventional housing and finance markets, that would be a departure from 50 years of housing policy?

Mr. HILER. So, essentially, we would be changing the entire role that the Government plays toward the housing market and toward providing housing needs for the citizens.

Mr. ASHLEY. Quite right, sir. It would be a departure of that magnitude.

Mr. HILER. Dr. Brimmer, you talked about the demand for housing having risen faster than demand in the general economy, and

that this was due to a variety of reasons including rising incomes, changing tastes, and differing lifestyles. You named a number of criteria.

Assuming a moratorium of 2 years on condo conversion, what would be the effect of that in terms of changing tastes and those other criteria that you mentioned?

Dr. BRIMMER. Mr. Hiler, if such a moratorium were to be imposed, it would interrupt a process of changing from renting to owning in all the communities around the country.

Let me suggest one thing that this would do. Remember, as I understand it, this would be a moratorium on conversions only, not a moratorium on building and selling condominiums. This would suggest, on the basis of the evidence today, that we are talking about less than 150,000 units a year. Let me repeat that. It was estimated in 1979 that there were about 132,000 condominium conversions. With the fall-off in demand last year, the estimate is only 100,000. These are conversions undertaken by literally hundreds and maybe even thousands of individual business people around the country.

While American Invsco is the leading converter in the country, it by no means does the bulk of the total business.

So you are putting a cap on the individual decisions of literally hundreds of people around the country. You would do absolutely nothing about the price of housing that would be beneficial. Rather, the contrary is true. You put a cap on one piece of the market. And you end up distorting the rest of the market, and the prices of ownership housing goes up. This is because, if anything, you now increase the demand in another sector of the market, and you add to the overall demand in the face of a limited supply. That is the inflation problem, the continuing shortage of housing relative to the overall demand. Conversions are not the linkage with inflation. So a moratorium would be quite disruptive.

Mr. HILER. You would describe the conversion industry as a fairly competitive industry, then?

Dr. BRIMMER. Yes, sir, I certainly would. The conversion industry is quite a competitive industry, and the evidence shows it.

Mr. HILER. How long were you at the Fed?

Dr. BRIMMER. Sir, I served 8½ years as a member of the Federal Reserve Board.

Mr. HILER. In your 8½ years at the Fed, do you recall having any experience with the Federal Government putting moratoriums on sales of products of this nature?

Dr. BRIMMER. Certainly not of this nature. But I have had experience with the Government trying to put ceilings on things. As a member of the Federal Reserve Board, I participated in the administration of something called regulation Q which sets a limit on the rates of interest that banks can pay on the deposits, savings accounts in those days, and time deposits which their customers left with them. That had disastrous results. It simply meant that the banks and savings and loan associations lost deposits to the private market, the outside market, where competition prevailed.

I learned, among other things, that the administration of such ceilings is very unwise. And, by the way, they have distorted the mortgage market, and to a considerable extent much of our trouble

in the mortgage market today can be traced directly to the attempt to manage and put a ceiling, a maximum price, on what the market can offer for a particular goods or service.

I thought the trend in this country and in the Congress was just the reverse, a trend toward removing such ceilings, a trend toward deregulation, a trend toward getting the boulders out of the stream and allowing the market to operate. I think it would be very unwise for the Congress to get back into this kind of business in this particular small piece of the market.

As I said earlier and my colleagues have stressed, the problems of displacement and similar kinds of issues can be dealt with, are being dealt with, and do not require any additional congressional legislation.

Mr. HILER. Yesterday someone testified that the housing industry is a \$400 billion industry. Does that correspond with the figure you might have?

Dr. BRIMMER. Yes. I would say that the new construction is one piece of it. We constructed last year almost 1.3 million new starts at a median price of \$64,600 for a total of \$83 billion. The median price of existing single family housing sold in 1980 was \$62,200 and there were 2.9 million such houses sold for a total of \$180 billion. When the value of rental housing and new and existing condominiums and cooperatives sold is included, you would have about a \$350 to \$400 billion housing industry in 1980.

Mr. HILER. That was included in the \$400 billion figure.

In your knowledge of the total housing market, what percentage of that total market reflects the apartment conversion process?

Dr. BRIMMER. We have that figure in the report. It is less than 2 percent.

Mr. HILER. And, incidentally, I agree with you that condos do not cause inflation. But even if they did, is it possible, from your knowledge of economics and experience at the Fed, that the tail could wag the dog to this extent, that less than 2 percent of the market could have an effect on the other 98 percent to a highly detrimental degree?

Dr. BRIMMER. I agree with you, condos do not cause inflation. This would be a very small tail trying to wag an enormous dog, and it just would not work.

Mr. HILER. Thank you very much.

Mr. ROSENTHAL. Mr. Neal?

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Chairman, I think it is important that you are holding these hearings. I have heard from individuals myself who have been displaced in this process, and they find it to be very uncomfortable. It appears that it is something that goes on in many communities in this country.

But it is my observation that whenever anyone is displaced by this process, there is an opportunity provided for someone else to buy a house—buy a property—that they might not have been able to buy before. And in a minute I would like to get some comments on that subject.

But I would also like to say, just for the record, that unless a company is unfairly manipulating markets or is violating some laws, then I am very hesitant for the committees of Congress to get

involved in trying to extract private proprietary information. And that does not apply just to Mr. Gouletas, but I would say that ought to be a general rule that we would follow.

If there is evidence of violation of the law or manipulation of markets or some other extenuating circumstance and we are aware of it, we ought to turn it over to the Justice Department and let them prosecute. I just wanted to make that general comment.

It seems to me that we are trying to get to the bottom of several questions here—the extent to which individuals that are displaced or treated unfairly or, beyond unfairly, illegally, possibly. There have been these allegations in the paper that I have read that the company controlled by Mr. Gouletas, Invasco, has treated people unfairly, and I would just like to give him the opportunity to fully clear the air on that subject.

You touched on it in your testimony, Mr. Gouletas, but there have been specific allegations, and I would just like you to deal with those specific allegations.

One other point I would like to make, in general terms, is that it seems to me that if it is not clear that Mr. Gouletas has violated the law, manipulated markets, or something, then it would seem to me we might be going after someone who is successful.

I was a businessman before becoming a Congressman. I was never anywhere near as successful as Mr. Gouletas, and I will have to say that, as a businessman, I am a little envious of him. It sounds to me like he has done a fantastic job if he has done it fairly. I think he is to be commended. Obviously, he is providing a service, or people would not be buying these things.

It seems to me that we ought not to be going after the General Motors of the industry, if that is what he is, and supporting the Chryslers. We ought to be encouraging there to be more General Motors, more competition, more people doing something, if it is beneficial to society.

I would like for you to comment—you or your associates—on two questions. One is this question of the displacement of people and how you see that in your business, and also the practices of your own company as you deal with people in making these conversions.

We do not have much time, but I would like you, just as clearly as you can, to clear the air on this question from your perspective.

I have one other comment. Someone is not telling us the straight story, Mr. Chairman, if you have got sworn testimony here, under oath, by people who are saying that they have been mistreated, and then we have testimony that they have not been mistreated. We ought to get to the bottom of that.

Mr. GOULETAS. I believe that I can address myself to the displacement, Congressman Neal. But I believe also that David Kaplan is here. Mr. Kaplan is the gentleman in charge of, and reports directly to me, how we can help.

Our program, by the way, is not only for the older people. There are other kinds of displacements. There are people who have children in school that would like to have an extension of the lease but they only want it for 6 months, 8 months, or a year, or whatever it might be. We address ourselves to that.

There are people who have other hardships, other than being old. There are people who have a handicap of some kind. We address ourselves to that.

If I may, may I call Mr. Kaplan to elaborate for a minute on what our programs are?

Mr. ROSENTHAL. Certainly.

Mr. GOULETAS. Mr. Kaplan, please.

Mr. KAPLAN. Thank you, Mr. Chairman and members of the committee.

My name is David Kaplan. I am the director of customer relations for American Invsco, having joined the company in 1977.

I would first like to answer the chairman's comments about the Plaza 400 and the challenge that we made to the senior citizens, I believe is what the chairman said. One, it was at my insistence, as director of consumer relations in the building, to ask our attorneys to not challenge senior citizens but to challenge the law, as predicated by the attorney general.

As Mr. Rosenthal knows, in New York City, there is absolutely no burden of proof on behalf of people who sign senior citizens eligibility forms. They come into my office. They sign a form that says: "I am 62 years or older, and I make \$50,000 or less."

What prompted me to become incensed enough to ask our attorneys to write to the attorney general was when a chauffeur brought his boss's senior citizen form into me. It really became ludicrous, when a man walked into my office and, while signing the form, indicated to me that he could buy half of the building for cash but I would never know it.

There are instances that I could document of 21 people who are now on a senior citizens lifetime program in a rent-stabilized program to which we, the developer, will be carrying those charges on, and on, and on.

I was concerned that people who truly needed the service of the senior citizens were going to get it; because it was going to be absolutely taken advantage of. That is in answer, Mr. Rosenthal, I hope, to the comments about the challenge of senior citizens at Plaza 400.

When I joined American Invsco Corp., I was charged by the chairman of the board, Nicholas S. Gouletas, with the responsibility to care, to have a commitment, and have concern for the senior citizens and the residents of his properties. He asked me to put together programs that would enable the senior citizens to remain in our properties when we started to convert them.

Some of the programs that we put together were to set aside 10 percent of our units in our properties for senior citizens who were eligible for the program. The eligibility requirements, ladies and gentlemen, were predicated on information given to us by HUD and the local and State governments of the communities we worked in.

I take great exception to a term used with my name that we dehumanized seniors or anyone coming to us for help. I take great pride in the work that we have done and I will give each of the Congressmen on this lectern 25 to 30 people around the country to call and ask their opinion of David Kaplan and the company he works for.



I grant you, David Kaplan and his staff of three, now, might miss somebody, but I say to you that we work 17 hours a day, 7 days a week. I think the work ethic of Mr. Gouletas has rubbed off on his employees.

When Mr. Schwam made his appearance on "60 Minutes" and indicated what we did to him, and I sat there watching it with a letter from him, praising us and thanking us from the bottom of his heart for what we did for him, I was confused. I get letters by the hundreds from seniors and residents that say that we are caring, we are compassionate, and we are concerned. Every day, we are trying to come up with programs to meet their needs.

In Hartford, Conn., this company has been invited to sit on the housing commission. I think that says something. I think that says we are on the right track.

Mr. NEAL. Excuse me, may I interrupt? I am impressed with your general testimony, but how about answering some of these specific charges? There have been some charges made about the Promenade.

Mr. KAPLAN. Let me tell you about the Promenade, Mr. Neal. A special assistance committee is formed of purchasers within the property and purchasers from without the property. This committee receives and decides all applications for special assistance. In no way does the committee know whom they are voting on for eligibility.

Mr. Neal, that committee was formed so that people could not come back to us and say it was the developer who made the decision. Another witness today will testify to that because he was a member of our committee, as are two other women in this room.

When we read the pertinent information to the committee, it was read by numbers: "We are now dealing with No. 1, a woman 73 years old." And if she had a debilitating condition, we read that condition from a doctor's note that was sent to us. If she had financial disabilities, we read that. At no time did the committee know whom they were voting on, and we swore allegiance to the committee members that their identities would not be disclosed because they did not want to be harassed by the tenants' association. I want to repeat that. We swore to the committee that their names would not be given out because they did not want to be harassed by the tenants' association. The tenants' association, by the way, gentlemen, is the biggest problem we have in confronting our seniors when they tell them: "Don't come near those people. They are out to get you."

That was the way decisions were made in allowing people to stay in the Promenade in a 2-year program.

In the Grosvenor, we are now experiencing a turnaround of our first 2-year program, and the chairman of the board has instructed me to make preparations now to make sure that those senior citizens whose 2-year leases are up now are found housing wherever there is housing available in our properties, and if there is a property that we are doing in the vicinity, to give those senior citizens the opportunity to go into that property with another 2- or 3-year lease, not to increase their rent. I think we are committed.

Mr. NEAL. Staff tells me that there was specific testimony about rejection of a lease to a man who had a brain tumor. Are you familiar with that?

Mr. KAPLAN. Mr. Neal, if there was a specific decline of a commitment for a 2-year lease, it was made by the committee and not by the developer. No, I cannot answer that because all we were able to do was give the committee the information as it was supplied to us.

Let me tell you, Mr. Neal, that many times we had a senior come to us with a disablement that the committee did not feel warranted a 2-year lease, and the committee asked that senior citizen to bring financial information so that perhaps we could put that senior on as a financial eligible.

Mr. NEAL. My time has about expired, but let me just suggest to you that you look over the specific testimony that has been given here—specific charges of abuse—and answer them one by one. Clear the air on them.

Mr. KAPLAN. I have not seen them.

Mr. NEAL. I am just recommending that to Mr. Gouletas.

Mr. GOULETAS. We would be more than glad to do that, one by one, specifically. Thank you, Congressman Neal, and thank you for allowing us to have Mr. Kaplan join us.

[The information referred to follows:]

AMERICAN INVSCO'S RESPONSE TO  
CHARGES MADE BY TENANT WITNESSES  
AT THE SUBCOMMITTEE HEARINGS ON  
MARCH 30, 1981

During the hearings of the Subcommittee on Commerce, Consumer and Monetary Affairs held on April 1, 1981, Congressman Neal requested that American Invasco submit a point-by-point response to the charges made by various tenant witnesses who testified at the hearings on March 30. This submission constitutes that point-by-point response.

1. PROMENADE CHARGES

a. Charge:

A tenant at the Promenade apartment building whose husband had a brain tumor was denied a Special Assistance Lease by American Invasco Customer Relations employee, Anne Solotar. (Witness: Richard Friedman)

Facts:

In October 1980 a woman came into the Customer Relations office at the Promenade and demanded of Anne Solotar that the Company grant her a two-year lease extension. Ms. Solotar explained that the Special Assistance Program had terminated. Ms. Solotar also



- 2 -

told the woman that she had no authority to grant lease extensions but that if the woman would put her request in writing, she would present it to the Company's Project Director at the Promenade to see if a special extension could be granted outside the Special Assistance Program. The woman then explained that her husband had a terminal brain tumor and left the office before Ms. Solotar had a chance to get her name or apartment number. The facts concerning this situation are described in detail in the attached letter from Anne Solotar to Congressman Michael Barnes, dated April 3, 1981 (Exhibit 1).

The woman then went to see the Assistant to the Chairman of the Board of American Invasco, who was at the Promenade at that time. He told the woman not to worry about the expiration of her lease and that she could stay in her apartment as long as necessary. She is still living in her apartment and has been given a lease extension through November 30, 1982.

b. Charges:

The purchase prices advertised to the public for units at the Promenade do not include the underlying mortgage. Nor do Invasco sales people mention it. Prospective buyers are told only that there are fixed charges to pay. (Witness: Richard Friedman)

Facts:

The chief difference between a cooperative and a condominium is that a building owned by a cooperative housing corporation may have a single mortgage on the entire building, whereas each condominium unit owner may have a separate mortgage on his individual condominium unit. The owner of stock in a cooperative does not assume or become liable for payment of the mortgage on the building. The monthly payment of principal and interest on the common mortgage merely represents one of the recurring expenses of the cooperative corporation, along with other expenses such as maintenance charges, real estate taxes, etc. These mortgage payments are included in the annual budget of the cooperative corporation, and are recovered, along with all other expenses, through monthly assessments against the stockholder tenants. Thus, the common mortgage on a cooperative is not part of the purchase price of the stock of the corporation purchased by a unit purchaser.

The existence of a common mortgage on the Promenade and the portion of the monthly assessment for each unit attributable to the monthly payments of

- 4 -

that mortgage are disclosed in detail in the Promenade Property Report at p. 13 and Exhibit A-4. Prospective purchasers are given access to the Property Report at the time they visit the Promenade Sales Office and they receive their own copy if they contract to purchase a unit. In addition, each prospective purchaser visiting the Sales Office is given a full explanation of the existence of the underlying mortgage and the carrying charges attributable to it. Thus no purchaser enters into a purchase contract without being fully apprised of the total financial obligations he or she is undertaking.

c. Charge:

Tenants at both the Promenade and Beaver Hill complained that they felt pressured into purchasing because the Developer offered special discounts to tenants for only a limited period of time. (Witnesses: Richard Friedman and Raymond F. Byrnes)

Facts:

Units in all American Invsco projects are priced according to the marketplace. These prices form the "introductory prices" at which the units are offered to the public. At the commencement of every sales

- 5 -

program, however the Developer offers tenants the opportunity to purchase their units at a substantial discount below the "introductory price." The Developer's Resident Discount Program is totally voluntary; it is not required by any law or regulation. Thus, the tenants are simply offered, for a limited time, a voluntary discount which allows them to purchase their units at a price less than the price offered to the public.

d. Charges:

The Promenade was sold "as is" with no warranty and no provision for reserve funds for major repairs.  
(Witness: Richard Friedman)

Facts:

There is, of course, no provision of law which would have required the Developer to sell units at the Promenade on other than an "as is" basis. Notwithstanding this, the Developer in fact performed substantial rehabilitation work at the Promenade, which includes caulking and brick repair work, restoration of the curtain wall, refinishing of the cooling tower, replacement of the roof in the center arcade, extensive masonry work on the balconies, landscaping, painting

and cleaning of units, renovation of the exercise rooms and recreational facilities, etc.

The Developer engaged Lockwood Greene Engineers, Inc. to conduct an inspection and make an evaluation of the property prior to the conversion. The Engineer's Report issued by Lockwood Greene was reproduced in the Promenade Property Report as Exhibit B-2. Most of the repairs recommended in the Engineer's Report have already been made and any recommended repairs which are still outstanding are planned for the near future.

In addition, the Developer provided a vehicle for a substantial cash reserve for major repairs by requiring each purchaser to pay into a reserve fund at the time of closing an amount equal to two months maintenance assessment.

e. Charge:

The Special Assistance Program for elderly and handicapped tenants at the Promenade commenced in August simultaneously with picketing by tenants. (Witness: Richard Friedman)

Facts:

American Invesco adopted its first Special Assistance Program in 1977. The program at the Promenade, as at other buildings, got underway soon after the conversion was announced. Immediately after the announcement, the Developer sent all tenants notice that special arrangements would be made for the elderly and handicapped. The Promenade Property Report which was distributed shortly thereafter contained a full explanation of the Special Assistance Program and, at about the same time, the Customer Relations Office distributed a flyer explaining the details of the Program. The Customer Relations Office was also open daily to answer tenants' inquiries and to provide additional details and assistance on the Program.

f. Charge:

Decisions on applications for Special Assistance Leases, while ostensibly made by a committee of purchasers, were in fact made by American Invesco employees Anne Solotar and David Kaplan. A man who required heart surgery was refused a Special Assistance Lease and is on a month-to-month tenancy. (Witness: Richard Friedman)

Facts:

A Special Assistance Committee, comprised exclusively of resident purchasers from the Promenade, made all substantive decisions on applications for special assistance. At the outset of the program, before there had been any closings on units, members were chosen from persons who had entered into Purchase Agreements for their units. Dennis Drewyer, a purchaser at the Promenade and a member of the Special Assistance Committee, described its role during his testimony at the subcommittee hearings on April 1, 1981:

At the same time that the conversion process was being outlined and the sales structure was being presented, I accepted a position on the [Special] Assistance Committee. This developer initiated program provided a format under which numerous residents could apply for a hardship extension of their leases, based upon their inability to buy or relocate immediately. The applications were reviewed by our committee without knowledge of the resident's name or address (apt. #), giving individual consideration for their infirmities in either income, age, general health, or physical disability as qualifications to remain as renters for an extended period.

No Company employee served on or participated in the decisions of the Special Assistance Committee.

g. Charge:

Tenants at the Promenade were called and told that their apartments were about to be sold or that their apartment was the last of a certain type left. (Witness: Richard Friedman)

Facts:

When a prospective purchaser decided to enter into a Purchase Agreement on a particular unit, sales personnel notified the tenant of that fact in order that the tenant might have a last chance to purchase his apartment before it was sold to an outsider. This was done as a courtesy to the tenants.

h. Charge:

Notices to Vacate were served by uniformed security guards, some knocking on doors as late as 10:30 p.m. (Witness: Richard Friedman)

Facts:

Under Montgomery County law, a Notice to Vacate must be served in person on an apartment tenant. In several instances, tenants attempted to avoid receipt of a Notice to Vacate by being unavailable, not answering



their doors, etc. Every attempt was made to serve Notices during normal business hours, but where a tenant was repeatedly unavailable or not at home in the evening, service was made as soon as the tenant could be located. Uniformed security guards were employed to make service so that tenants would not be frightened when approached by unfamiliar persons.

i. Charge:

Leaders of the Promenade Tenants Association have been singled out and given notices to vacate their apartments. Specifically, Sylvia Ely was told in January that her apartment had been sold and was given a Notice to Vacate. Neither an appraiser nor a prospective purchaser had visited her apartment and of the four penthouse apartments in the building one was vacant at the time of the alleged sale and continues to be vacant. Richard Friedman and another member of the Tenants Association also received Notices to Vacate. (Witness: Richard Friedman)

Facts:

Mrs. Ely resides in one of only four penthouses at the Promenade. Three penthouses, including Mrs. Ely's, are sold; one is unsold and vacant. The vacant

unit is similar to Mrs. Ely's but in the North Building, nearly surrounded by the Beltway whereas Mrs. Ely's apartment is in the South Building overlooking a wooded residential area and the tennis courts, with a sunny, southeastern exposure. Mrs. Ely's unit is better located, more desirable and therefore sold first.

Mrs. Ely's penthouse was sold in January and she was therefore given a Notice to Vacate by April 30, 1981. Mrs. Ely informed the Company that she had purchased a townhouse which she could not occupy until August. The Company contacted the purchaser to see whether Mrs. Ely might remain in the apartment until August but the purchaser refused since he wanted to move into his unit as soon as possible. The Company offered Mrs. Ely an alternate unit to occupy until August, but she declined.

Mr. Friedman lives in a Prestige One Bedroom in the Promenade's South Building. There are only 17 units of this type in the South Building and 11 have been sold. A contract for Mr. Friedman's unit was accepted on February 9, 1981, and on February 19, Mr. Friedman was served with a Notice to Vacate by May 31, 1981. Mr. Friedman was offered an alternate unit to occupy in the building, but he declined.

Subsequently, the purchaser of Mr. Friedman's unit stopped payment on his earnest money check. The Company asked the purchaser in writing to clarify whether he intended to complete the purchase or cancel his agreement. By letter dated March 24, 1981, the Company notified Mr. Friedman by letter of this situation and told him that should the purchase agreement on his unit fall through, his Notice to Vacate would be rescinded. Subsequently, the purchase agreement was cancelled and on April 21 Mr. Friedman's Notice to Vacate was rescinded.

j. Charge:

Units at the Promenade have been sold to investors. Home Marketing of America, the sales arm of American Invsco, has openly solicited the residents of the Grosvenor Park Apartments to purchase units at the Promenade. In addition, a unit which was leased until July 1982 and which was restricted to single occupancy was sold to a married couple who clearly did not intend to occupy. (Witness: Richard Friedman)

Facts:

The Company believes that sales to investors at the Promenade would be totally lawful and proper.

However, it has followed a policy of not soliciting investor purchases at the Promenade. In January 1981, Home Marketing of America, the Company's sales division, wrote to the residents of the Grosvenor notifying them of the opportunity to purchase units at the Promenade with discounts which were being made available to the entire public. The written communication was intended to encourage Grosvenor residents to sell their apartments at the Grosvenor and move to the Promenade, not to purchase at the Promenade for investment.

The only units at the Promenade which are leased until 1982 are the ones where tenants have been granted special assistance lease extensions. Sale of these units must be made subject to existing leases and the purchaser obviously cannot take possession until the lease expires.

## 2. BEAVER HILL CHARGES

### a. Charge:

The Developer did nothing about smoke coming up through the incinerator at Beaver Hill. (Witness: Richard Friedman)

- 14 -

Facts:

The incinerator problem existed at the time the Developer purchased the Beaver Hill project in late October 1980. Immediately after closing, the Developer undertook measures to correct the problem and, to its knowledge, has succeeded. The screen at the top of the incinerator system was replaced to allow increased ventilation and maintenance has been stepped up. In the past five months no further complaints have been received.

b. Charge:

No price list was provided for units at Beaver Hill. (Witness: Raymond F. Byrnes)

Facts:

Early on in the conversion, each tenant was notified of the price of his or her apartment unit. In addition, any individual visiting the Sales Office was given free access to a price list for all units in the building.

c. Charge:

While all three buildings at Beaver Hill were converted, only the North Building was marketed

- 15 -

immediately. This left two-thirds of the complex off the market while strong pressure was exerted on tenants of the North Building to purchase. (Witness: Raymond F. Byrnes)

Facts:

In November 1980 when the Beaver Hill conversion was announced, interest rates were unpredictable and the real estate market was uncertain. At that time the Developer had not yet obtained a mortgage commitment for end-loans on the individual units at Beaver Hill. Given this situation it was decided that all three buildings at the project would not be marketed immediately. The North Building was the only building marketed at that time.

Four weeks later (or approximately the first week of December), the Developer obtained mortgage commitments large enough to market all three buildings. In addition, it became evident by that time that nearly 50% of the residents of the North Building intended to purchase their apartments.

Due to the favorable response from residents of the North Building, coupled with a sudden jump in the interest rate, the Developer made a decision to

- 16 -

go ahead and market the South and West Buildings so that the residents could take advantage of the lower "locked in" interest rates provided in its mortgage commitment.

d. Charge:

The offering statement contained numerous ambiguities and omissions. Through court hearings, some changes were made to correct some of the existing conditions, including a new public offering statement issued by the Beaver Hill Limited Partnership, the Developer. The deadlines also caused confusion and chaos. (Witness: Raymond F. Byrnes)

Facts:

By reason of a previous agreement entered into between the Developer's predecessor and the Borough of Jenkintown, certain disclosures and other provisions of Act 82, a new Pennsylvania law governing condominium conversions, were made retroactively applicable to the Beaver Hill conversion. As with many new laws, the intent of Act 82 was somewhat vague and much of the language was ambiguous. The Developer complied scrupulously with the Act's requirements such as giving tenants the exclusive right to purchase their apartments

for six months and offering all tenants one year lease extensions (two years for senior citizens).

The Borough of Jenkintown filed suit against the Developer seeking to add further information to the disclosure statement. The Tenants' Association intervened and sought certain other affirmative relief. The Developer voluntarily amended its disclosure statement to make legitimate clarifications but opposed adding certain additional information which was not required to be disclosed and opposed the Tenants' Association's request for relief. The suits were ultimately dismissed by the court on a finding that the claims were moot or lacked merit.

Judge Davenport remarked:

I can say to you that it is the sellers' present intent, has been the sellers' past intent and will be the sellers' future intent to comply with the stipulations relative to . . . Act 82.

In order to clarify the many deadlines that are required under Act 82 and to alleviate any confusion due to the different marketing schedules for the three buildings at Beaver Hill, the Developer agreed to begin the running of all deadlines from January 1, 1981 even



- 18 -

though the marketing period had begun in November 1980. Further, because certain discount periods relating to the South and West buildings had run during the litigation, the Developer unilaterally agreed to extend those deadlines due to the confusion caused by the litigation pursued by some of the tenants.

e. Charge:

Tenants who did not appear at the Sales Office were contacted regularly even if they had already declined to purchase their unit. (Witness: Raymond Byrnes)

Facts:

Tenants who did not call for an appointment at the Sales Office were contacted to set up an appointment at their convenience to discuss their resident benefits at Beaver Hill. Those who did not make an appointment were mailed a copy of the resident program and were contacted at a later time by one of the Developer's representatives to ask if they needed any further information. While Beaver Hill houses 458 tenants, the Developer's Sales Office employed only four full-time employees to take care of all sales.

- 19 -

There was neither time nor any reason to recontact tenants who had expressed a desire not to purchase.

f. Charge:

A salesman from Beaver Hill contacted Morton Schwam's son-in-law in California to discuss his possible assistance in purchasing Mr. Schwam's apartment even after Mr. Schwam had expressly asked that his son-in-law not be called. (Witness: Raymond F. Byrnes)

Facts:

The Project Director of Beaver Hill, received a call from Mr. Schwam's son-in-law in California who asked if he could put down a \$1,000 deposit to hold Mr. Schwam's apartment until he decided whether to purchase. This call came several days before the resident discount program expired. The Project Director explained this situation and sent Mr. Schwam's son-in-law by overnight mail a packet of materials describing the terms under which Mr. Schwam could purchase his apartment. A few days later the Project Director called the son-in-law to see if the materials had arrived and if he could be of further assistance. He did not have the son-in-law's number so he called Mr. Schwam who

- 20 -

gave it to him. Nothing was said about not making the call.

g. Charge:

A unit occupied by Mary Gebhardt at Beaver Hill was sold immediately after conversion although state law granted her the exclusive right to purchase her apartment for a period of six months. (Witness: Raymond F. Byrnes)

Facts:

To date the only closings which have occurred at Beaver Hill have been on units which were vacant or were purchased by tenants. The six-month exclusive purchase period for tenants does not expire until July 1, 1981. Contracts have been accepted on units during this six-month period from nontenants, which by their terms are expressly conditioned on the tenants' statutory right of first refusal. If and only if the tenant does not exercise his right to purchase will such "backup contract" be consummated. If the tenant elects to purchase his apartment within that period, the backup contract becomes null and void by its terms as to that apartment.

- 21 -

h. Charge:

The Developer's property tax estimates on individual units at Beaver Hill were less than half of the actual amount of the tax. (Witness: Allan J. Beckman)

Facts:

The Developer's property tax estimates were based on prior tax bills. At the outset of the conversion, the Developer distributed to the residents of the North Building -- the only building being marketed at that time -- a written statement that the tax figures quoted were based on the most recent tax bill available which was the 1979 Tax Bill for Beaver Hill as an apartment complex. At that time no tax figures were available for any of the buildings on an individual unit basis. As soon as new tax figures were available, the information was provided to prospective purchasers.

i. Charge:

Beaver Hill has 458 rental units out of a total of 800 in Jenkintown. This leaves very little opportunity for tenants, when they are required to move, to move to other apartments in the area. (Witness: Raymond F. Byrnes)

Facts:

Jenkintown is an extremely small borough, as these rental figures indicate. However, the Developer believes that there are ample rental apartments comparable to those at Beaver Hill available within the nearby vicinity.

3. GENERAL CHARGESa. Charge:

Michigan formerly had a law on its books giving life tenancy to senior citizens regardless of income, but American Invaco managed to change the law to grant a tenancy for a term of years. (Witness: Kathryn Eager, Washington, D.C.)

Facts:

Michigan has never had a law granting to senior citizens life tenancies in converted buildings. In 1980 a bill was introduced in the Michigan State Legislature which proposed such a provision, but the bill was not passed into law. The Legislature passed an alternative bill which granted senior citizens lease extensions for a term of years based upon their age.

- 23 -

b. Charge:

American Invsco purchased Beaver Hill for \$18 million and is selling it out at \$33 - 36 million. American Invsco purchased the Promenade for \$50 million and wants to turn it over for \$100 million. (Witnesses: Richard Friedman and Raymond P. Byrnes)

Facts:

These statements are inaccurate and misleading. First, the projected sell-out figures ignore the very substantial discounts offered to tenants who purchase their apartment units. Second, these statements erroneously imply that the difference between purchase price and sell-out constitutes profit to the Developer. These figures do not reflect the substantial costs involved in converting a building from rental to condominium or cooperative ownership. A detailed treatment of the cost and revenue issue is set forth in the written testimony of Nicholas S. Gouletas, Chairman of the Board of American Invsco, submitted to the Subcommittee on April 1, 1981, as well as the transcript of the Subcommittee hearings held on that date.



Exhibit 1

## *The Promenade*

• David M. Kaplan  
Director  
• Anne P. Solotar  
Associate Director

April 3, 1981

The Honorable Michael Barnes, M.C.  
1607 Longworth  
House Office Building  
Washington, D.C. 20515

Dear Congressman Barnes,

I appreciate this opportunity to be able to respond to the President of the Promenade Tenants Association, Mr. Richard Freidman's testimony, before the Congressional Subcommittee on Government Operations, of March 30, 1981.

Although, many of the comments made by Mr. Freidman, in his testimony, were erroneous, I will limit my remarks in this letter to the charge he made against me, which has upset me the most, that is: concerning the woman whose husband was dying of a brain tumor.

The first week in October of 1980, a woman came to my office and demanded that I give her a lease extension. I explained to her that our Special Assistance Program for two-year leases had ended on August 1st 1980 and so I could no longer offer her an application. I also told her that I had no authority to grant her a lease extension and if she would put her request in writing I could then present it to someone with that authority. She then proceeded to tell me her husband had a brain tumor, and began to cry and screamed, "You can't throw a dying man out in the street", and left my office. I tried to find out her name and apartment number, in order to do a follow up, but was unable to do so. When your office called to inquire about the incident, I explained what had happened and asked that someone submit a written request on her behalf, but I never received anything.

I never turned the woman down for a lease extension, since I was never given the authority to grant or deny lease extensions of any type. I usually interview a resident, take information, and present it to the proper people. In this case I never even got as far as getting the resident's name.

Consumer Relations  
5225 Pooks Hill Road Bethesda Maryland 20814  
(301) 897-8303

I was hired by American Invsco to help make the conversion situation easier for the residents (not for the developer). I have been at the Promenade since July of 1980 and during this time have worked with hundreds of tenants on a one-on-one basis, to try and meet their individual needs. In almost every one of these cases, resolutions were found which were satisfactory to the tenants. No one who was needy was ever turned down.

You can visit the Promenade any day of the week and see that the majority of the residents are content and happy, and I am proud to say that in many cases, it is because I was here.

Most cordially,

  
Anne P. Solotar

Mr. ROSENTHAL. Mr. Barnard?

Mr. BARNARD. Thank you, Mr. Chairman.

Dr. Brimmer, I am interested in your evaluations of the HUD study a little bit further. I presume from what you have said that you do put some credibility in this report, after having studied it. Would you just address it briefly? What does the study actually say as far as these conversions are concerned?

Dr. BRIMMER. The study said, and I addressed myself specifically earlier to the question of displacement, based on a statistical analysis of national data, the study group concluded that if you were to take 100 transactions, shifts from rental to ownership, what is the net impact? It said that about 5 percent of the 100 would end up with a reduction in the rental stock and about 5 percent with an increase in homeownership. So there was shifting about, but there was no substantial net loss from the rental housing stock. That is a conclusion reached by the HUD study.

Mr. BARNARD. So, in other words, at this point in time it has not become a national problem? It has not reduced rental properties to the degree that it is a national problem?

Dr. BRIMMER. At this point in time it has not done so, and that was a conclusion reached by the HUD study as well.

Mr. BARNARD. Mr. Gouletas, what continuing association does your company have with a conversion?

Mr. GOULETAS. A piece of property has two values. One is the physical value of the property, the bricks, the mortar, the location, and so forth. I believe the other value that the property has is its reputation.

In order to get the condominium association started properly, we provide services to the condominium association in providing accounting, providing legal, and providing people to sit on the condominium association, in counseling them, in guiding them in what their responsibilities are in starting off and putting the association on the proper track.

Our company also offers management services for the association. Those management services are provided at what is market rate. Those services are provided for a maximum of 2 to 5 years, and we try to assist the project in starting in its homeownership or condominium role.



Mr. BARNARD. What percentage of conversions subscribe to your management, and what do not?

Mr. GOULETAS. I would say, and I am going to give you figures off the top of my head at this point, that approximately 50 percent, or thereabouts, subscribe to our management, and that percentage continues to subscribe to our management when they could bring in outside management.

I think, Congressman Barnard, one of the greatest compliments that has been paid to me is, after the board of directors for an association were all residents, that they, on two occasions, elected me as president of the association, and these were associations that were all resident, and the board consisted of nondeveloper board members.

Mr. BARNARD. What is your fee? Is it confidential information what your fee is for management services?

Mr. GOULETAS. By no means. Our fees are competitive. They are on a per-unit basis, and they vary according to the marketplace, somewhere between as low as \$5 to \$7 per unit per month to as high as \$10 or \$12 per unit per month.

Mr. BARNARD. But in some of these facilities, that management has to be rather extensive. If you have 400-some-odd units, and you have to accommodate trash disposal and maintenance of the hallways, and I guess you have swimming pools and things of that kind, is that not a pretty extensive operation?

Mr. GOULETAS. Yes, it is very, very extensive. As a matter of fact, the company totally, and I am going to give you a figure overall, including our sales associates, management company accountants, janitors, etc., we employ or have associates of over 3,000. We lose money in the management company year after year. As a matter of fact, the loss might be \$50,000 to \$100,000, and it has run into several hundreds of thousands of dollars in losses in running a management company.

However, I believe that I have an ongoing commitment to a building that I converted and that I sold to get it started on the right track.

Mr. BARNARD. In the matter of these conversions where you and your family continue to own units which you lease out, I presume, then, that you all pay the same management fee per unit as the rest of the owners?

Mr. GOULETAS. Yes, we do.

Mr. BARNARD. Mr. Ashley, gleaning from your great experience in this area over many, many years, what would you propose as the real answer to this problem today? It appears that, as your testimony has brought out, we are having a decline in the availability of rental units across the country, not only for senior citizens but for middle-income people. What do you think is the real answer to the problem that we are facing today?

I know we are sympathetic to the hardships that people have had in moving from one place to another, but if a person had the availability of decent housing at a reasonable price, possibly these hardships would be averted, and we could perhaps let the free enterprise system work.

Do you see some solutions other than restrictions?

Mr. ASHLEY. In your usual way, Congressman, you really see the route that has to be followed. You have answered your own question.

When demand overwhelms supply, which is characteristic of today's housing market, you simply have to respond on the supply side to negate the demand side. To try to answer the shortfall of supply by dampening demand does not work. It does not work. When we take that route, that is when people double up, when people live in seriously substandard housing units.

So there has got to be a response, and at the Federal level, to the shortfall that exists on the supply side. And that has got to be done both by direct and indirect Federal intervention, if not today, gentlemen, someday.

What I am saying is that we have got to make the private marketplace work better, more effectively, more to the social objectives that we seek as a nation, on the supply side, without direct intervention. That can be done through the tax laws, through the other indirect means that we have utilized over the decades.

The direct intervention comes when we address ourselves to the plight of people who cannot afford housing on the private market, and there, whether we like it or not, whether we like section 8 or not, whether we like public housing or not, that problem is not going to go away. That is to say, with regard to the demand for housing on the part of people who do not qualify by reason of low income and all kinds of impediments for housing on the private market, there has got to be a Federal intrusion so that there is an ability to provide decent housing for those individuals and families.

It is a two-pronged approach that has to be devised and implemented in order to bring supply and demand into better balance. Short of that, what we are doing, with all due respect, the avenues and the answers that have been suggested, in my judgment and from my experience, are not going to be productive.

Mr. BARNARD. But if we had the supply, then if Mr. Gouletas was not treating his customers right, they could just go somewhere else. Is that not right?

Mr. ASHLEY. My understanding is that Mr. Gouletas is offering a product that nobody is obliged to purchase. I will say in all truth that there are many reasons why tenants of buildings purchased and converted by Mr. Gouletas might well be persuaded to stay there, and one of those reasons is the lack of other living opportunities elsewhere.

But among the very cogent reasons for the effective demand for the units that he is producing is the economic benefit which Dr. Brimmer and Mr. Gouletas have alluded to.

But the basic problem—and I say this with great respect for each of you gentlemen—is a supply/demand mismatch in the housing market, and until that is addressed we are going to continue to have irritations and concerns, and legitimate concerns such as those to which this committee is addressing itself.

Mr. BARNARD. My time has expired, Mr. Chairman.

Mr. ROSENTHAL. Mr. Peyser?

Mr. PEYSER. Thank you, Mr. Chairman.

Mr. Gouletas, I would like to say at the outset that I think most of us on the committee have nothing but admiration for the way

that you have, as you outlined in your testimony, come from a family that had economic hardships even though they were obviously rich in many other ways, for which you were fortunate, arrived at the place that you are today, and I do not mean in front of this subcommittee, but I mean in the overall status that you have gained.

Also, obviously, we are both impressed and delighted with your two advisers and counselors you have with you who have established outstanding reputations over the years. I make particular reference to my friend and former Congressman, Mr. Ashley, who has been certainly one of the most courageous leaders when he was in this Congress fighting for my home city of New York. He stuck his neck out and, to a certain degree, maybe even paid the price for it in his recent defeat.

However, there is a real concern. The reason for these hearings is to find out what is the overall impact. What is really happening in the condo and cooperative conversion program that is going on so rapidly throughout this country.

I personally have the feeling that you and others in your business can very well be killing the goose that laid the golden egg here by the continuing rapid expansion of condominium and cooperative conversions within these cities. My feeling is that the cities we are dealing with, whether it is Washington, New York, Chicago, or other areas, are going to be made up of rich, upper middle income, and poor, without the vital component of the real middle income being able to survive in those cities.

I suggest that that mix of rich and upper middle income and poor will not long survive in a peaceful arrangement. Therefore, if that were to be true, we would find an ending of the condo situation, leaving a lot of people, and particularly the cities, in far worse condition than some may feel they are in today.

I would like to ask you a specific question. You have expressed, and Mr. Kaplan has expressed, a great concern for the elderly and those that are in difficult situations within your buildings that are affected by the conversion. Would you support a law nationally that is similar to the law in New York State dealing with the elderly who are involved in the kind of conversions that we are dealing with here today?

Mr. GOULETAS. I do not think that kind of a law is necessary to help the elderly. There are a lot of people other than the elderly, by the way, who should have consideration.

I would be the last one to disagree that there is a problem, that there are people who need some help, absolutely. And I believe that not only we, as developers, but also the entire communities of society should take a look at that and see what is our role in that situation.

I do not believe that it should be put on any one individual's or one corporation's back to do everything. As a matter of fact, Congressman Peyser, I would say that if you allow the process to operate, and if we are interested in housing units, it is not our process or the conversion process that eliminates housing units. The biggest problem that we have in this Nation of taking housing units off the market is abandonment.

You are from New York, and the biggest abandonment we have is in the New York area.

Mr. PEYSER. I understand that, Mr. Gouletas, but I would have to disagree with your assumption. I realize we are dealing with needy people other than the elderly, but the elderly fall into a very particular category to which this Congress has long directed itself, through a number of programs aimed at helping the elderly. I think they do fall into a special category.

I feel they are trapped. All you have to do is listen, not only to the testimony which has been presented to this subcommittee by elderly people, but from talking to people, as I have in my own areas in New York, where conversions are taking place, and here in the District of Columbia. Now you see the impact on elderly.

I am not talking now about your organization specifically but of all those involved. I can tell you it is destructive on their lives. The fact even that they are given a 2-year extension of a lease, for someone who is 70 years old, who is told: "Well we are going to try to help you, and you can stay here for another 2 years, and we will only increase your rent by cost-of-living increases," is no solution for these people because they begin to feel then that they had better start moving. They are under all those pressures.

I am saying that we need something, and I would wish that you would think we need something that says that people cannot do this to the elderly at this point in their lives. That is what I am suggesting.

Mr. GOULETAS. Congressman Peyser, I understand what you are trying to say. However, we are not looking at the total problem. Those same people say that the building stays as a rental. Those same people, unless you have complete rent control throughout this country and then wipe out all private housing, because that is what you would do.

We have inflation, ladies and gentlemen. Construction costs are going up at the rate of 18 percent per year. Those people would have the same problem in a rental property.

Mr. PEYSER. If you would forgive me, Mr. Gouletas, just to take back my time on this point, I do not quite see it that way. I see it very differently at this point, and so, rather than pursue that particular area any further, let me say that I have experienced the impact personally.

The Congress gets a magnificent compensation, \$62,000 a year, which is certainly far greater than many of the elderly, in fact, the overwhelming numbers. I lived in the Findlay House here in Washington where a conversion took place. Developers said to me: "This is a great opportunity," and my rent would increase a little over 110 percent, not my rent, my outlay, which, frankly, in spite of the magnificent income I have, which is my sole income, I could not afford, and so I moved.

I moved to a place called Tiber Island, which is also here in the District of Columbia. About 3 months ago, I got a notification that the Tiber Island is going to go condo, and I will once again be given this wonderful opportunity of increasing my outlay by well over 100 percent. But, overall, this is no problem because you have great tax writeoffs on the interest, and so forth.



Very frankly, even at my income, I do not have the cash flow to survive in those places.

When you speak of the elderly, and you speak of the middle-income family, and I would like to direct this as a question to an economist and someone who is very familiar with the economics of the situation, but do you really believe that a middle-income family can afford such outlays? Now I am taking it away from myself; I will find my own places; I am not going to worry about that problem. It may be a slight frustration, but I realize what it does to other people.

Do you believe a middle-income family in this area, not nationally, because I do not accept those national rental figures; I am talking about displacement in urban areas where this impact is really being felt, that earns \$30,000 a year that is now paying \$600 a month rent for a two-bedroom apartment, forgetting the downpayment question, can afford the cash flow situation of \$1,000 to \$1,200 a month which the conversion would call for?

If you were advising that family at that income level, would you advise that they could now work out an arrangement where they could live and still pay \$1,000 to \$1,200 a month?

Dr. BRIMMER. First of all, Congressman, I would be very cautious about advising such a family on the basis of the information I have so far. I would want to look at the rent of their budget. Perhaps that family, if it chooses to consume that kind of housing, would then be in a position to reallocate its budget in a way to consume more housing and less of something else. But it has to be a choice of the family. They would have to decide what they could afford and what they could not afford.

Mr. PEYSER. If you were counseling the family, the specifics are just what I am giving you. They have an income of \$30,000 a year. They are paying \$600 a month rent. The unit is now going condo. Forgetting the downpayment of 10 percent completely, say they can scrape up what they need for that, which is also a question, as a continuing thing, do you think you would recommend to that family to take an outlay of \$1,000 to \$1,200?

The reason I ask the question is that this is what has been happening right here in the capital of our country, in the District of Columbia, in the building that I mentioned before.

Incidentally, both buildings I mentioned are excellent buildings. They are considered prime apartment buildings. It is not a question of going in and refurbishing or doing something to them. They are prime buildings, fully integrated, incidentally, and the minority representation is excellent in both of those buildings, and yet the minority is the biggest group being forced to move out because of income problems, and other people like myself.

How do you handle that? I think this is a problem of the cities and of the country. Unless we at the Federal level do something about it, we are going to create a worse problem in the future for these cities.

Now, let us come back to our \$30,000.

Dr. BRIMMER. I start off, Congressman, by assuming that if this family has \$30,000 a year, that is roughly \$2,500 a month, and at \$600 is paying about a quarter of its income for rent, purely for the payment of housing services. The decision to go into a condomin-

ium is a joint decision: First, to continue to consume housing services, and to make an investment.

The investment component of the transaction is the issue that is at stake. I have no way of knowing whether that family is in a position to rearrange its own consumption patterns in order to accomplish that investment. And I could not say arbitrarily yes or no. I would have to look at the total budget and counsel with that family as to how it is prepared to revamp its own expenditure patterns. That is the economics. The rest is taste and preferences.

Mr. PEYSER. I appreciate your, in effect, getting off the hook on the issue, but I have had the question put to me, and I have told them they cannot afford to survive in this inflationary period with that kind of an outlay. I think that is the real nuts and bolts of what we are dealing with here and the reason for the chairman's concern and all of our concerns.

The trouble is that we are dealing with the best rental units. We are not dealing with the worst rental units. I would ask this of you, Mr. Gouletas. When you look at a building, do you go to the most run-down depreciated kind of building that you can find and say: "Let's make this a condo"? Maybe you do. I have never been in the business. Or do you go to a Findlay House or a Tiber Island, which is a very excellent, well kept, and fully rented building, and say: "If I can acquire this building, this is the kind of building I want"? What kind of a building do you look for in a conversion of this nature?

Mr. GOULETAS. The buildings that are being converted by American Invsco are the luxury buildings in an area. I can appreciate your \$30,000, and I am not an economist. I can address myself to that.

Not being an economist, I believe that people have priorities. Again, I have to ask the Congress to look, not at a moment in a given time, but to look over periods of time, a 5-year period, and tell me where the rent of that \$30,000-a-year earner may be 5 years from now with the inflation that we have year after year?

Mr. PEYSER. What may be his income five years from now? Hopefully, his income is going to keep up, at least with the inflation. So he is in the same situation.

Mr. GOULETAS. We hope so, but it does not. I think it can be proven that it does not.

The other thing is if they are on a fixed income, and I think that is where you have to go. What if they are on a fixed income? Then you have even a bigger problem.

I do not know that there are any people in any of those buildings, Congressman Peyser, who were any poorer than my parents when we came over. I have to honestly say that those people have to make a sacrifice. If you go percentagewise, they should never have bought a home. However, that same home, my parents still own.

Mr. ROSENTHAL. The time of the gentleman has expired.

Mr. PEYSER. OK. I thank the chairman.

Mr. ROSENTHAL. Mr. Levitas?

Mr. LEVITAS. I have no questions, Mr. Chairman.

Mr. ROSENTHAL. Then let me ask a few questions. We will recess at 1:15 and reconvene with you, Mr. Gouletas, at 2 o'clock. There

are two panels this afternoon of distinguished other national converters and a series of other witnesses. We hope we can reach everyone this afternoon. We will try very, very hard.

I have just one or two questions before we go to lunch.

In my March 11 letter to you, we asked the following question: Does American Invsco permit Gouletas family members, Invsco employees, or others to enter into purchase agreements for units in converted buildings without requiring payment of a percentage of the purchase price; that is, a downpayment at the time of the contract signing?

In your response to that question, dated March 31, you said: "On numerous occasions, earnest money deposits have not been required of Invsco employees, Gouletas family members, and outsiders."

Could you tell us, more specifically, the details, which outsiders, when, and what units?

Mr. GOULETAS. Many outsiders and many units, but in order for you to fully appreciate that, I have to go back to the way I conduct my business.

Mr. ROSENTHAL. You have got to give us facts. Otherwise, we will be here for days, and that will not be good for you; it will not be good for us.

Tell us which outsiders did not pay a downpayment on the purchase of an apartment.

Mr. GOULETAS. We have had many residents living in the apartments that either did not put down the full earnest money deposit or any earnest money deposit until closing. We have had a number of outside buyers that I do not know, have never met, and they have done the same.

If you let me explain the policy, you will appreciate it. I am a wholesaler. I do not sell one unit like somebody would sell a house. They say to the buyer:

You have to put earnest money down of a certain amount so that, in case of any reason whatsoever you change your mind, I will take your money.

Mr. ROSENTHAL. Yes, but—

Mr. GOULETAS. Let me finish, just this once. I have to explain if you are going to understand it, and I imagine Congress would like to know.

Mr. ROSENTHAL. As a practice, does a purchaser go to contract and put 10 percent down or some number like that, as a general practice?

Mr. GOULETAS. As a general practice, the answer to that question is: No, as a general practice.

I do not keep earnest money deposits; it is not a general practice. In other words, if anyone buys from me, and for any reason they come to the closing table—and I do not care what the reason is—they do not close, I give them back their money. I do not want their money. Therefore, earnest money is not of any subsequence to me, in the first place.

Mr. ROSENTHAL. Do most people who purchase the units from you make a deposit on a contract?

Mr. GOULETAS. Do most people make some kind of a deposit, as little as \$500 or \$1,000? The answer would be, yes.

Mr. ROSENTHAL. When Tully purchased his apartment, did he make any downpayment?

Mr. GOULETAS. Yes.

Mr. ROSENTHAL. When he closed the deal at the Grosvenor, did he pay any cash?

Mr. GOULETAS. Yes.

Mr. ROSENTHAL. We have copies of the deed that certified check was not received by you for some time after the matter was closed.

Mr. GOULETAS. Your question was: When Tully bought his units, did he make any deposits? The answer is: Yes. Ordinarily, and usually, Mr. Tully made his deposits.

Mr. ROSENTHAL. On this one here, the Grosvenor House, it says: "Earnest deposit: Zero."

Mr. GOULETAS. Mr. Rosenthal, I explained to the Congress that Mr. Tully bought five or six units, ordinarily putting down a deposit on all of them, except the two that you are referring to, and upon closing, yes, he paid his full money on those two units.

Mr. ROSENTHAL. What about the other units? Did he pay any money on closing those?

Mr. GOULETAS. On closing, he paid in full for each and every unit. As a matter of fact, he was charged for improvements in one of the units at the Grosvenor, approximately \$4,000, in a unit we were using as an office where we had put down a carpet and painted it a little bit. We charged him an extra \$4,000 while we used it for 9 months, and we gave him no credit for the wear and tear on that unit and on that carpet.

In the unit in Houston, we charged him \$15,000 more than any outsider could have bought it for possibly 4 or 5 months ago because the price has increased, and he paid the full price that we felt was the market value at that time.

Mr. ROSENTHAL. Have you sold units in the Promenade to unnamed persons in Bermuda or the Netherlands Antilles and places of that nature?

Mr. GOULETAS. I do not know.

Mr. ROSENTHAL. You see, you come here today totally unprepared factually. I must say that. I think there has been a vast amount of speculation in these apartments, the Grosvenor, the Promenade, the Galt, and other places. And, if so, then there is a violation of the Securities and Exchange Commission Act.

Mr. GOULETAS. No, there is not. You have letters to that effect, Congressman Rosenthal.

Mr. ROSENTHAL. In other words, there has been speculation, but they have held that there has not been violation of the law.

Mr. GOULETAS. You have the latest letter, and you have continued to make those accusations. You have letters from the SEC telling you that you have continued to do it, and there is no violation. You have letters from the IRS, the SEC, the FTC. You have written letters to every agency that I can think of, trying to get them to say that there is some type of violation. You have not once, Congressman Rosenthal, given the replies of what those agencies have told you in reference to your accusations and in reference to your philosophies.



I see this as a difference in philosophies. You may have yours, and I have mine. I am part of the free enterprise system. You may have yours, and I respect yours.

Mr. ROSENTHAL. Would you just answer the questions?

Let me see if there is a question of philosophy here. In one ad in the Sunday, March 28, Washington Post, for the Promenade, it says: "Two-bedroom, priced from \$107,000." Down below, it says: "Two-bedroom suites for \$96,000." In a similar ad for the Promenade in the Washingtonian magazine dated December 1980, it says: "Two-bedroom suites from \$110,000."

Has there been price fluctuation in that area? What is the real price?

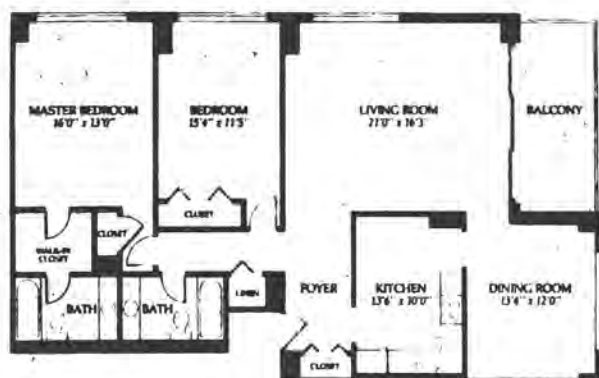
[The ads referred to follow:]

WASHINGTON POST, 3/28/81, p. E28



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A Mutual Housing Corporation



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A private shopping and service arcade, Olympic-sized pool and sun deck, private tennis club, private health club, elegant party salon, and a private gatehouse with 24-hour security are just a few of the exceptional amenities.

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*Kiewit Properties, Inc.*

A Division of Kiewit Construction Company

WASHINGTONIAN, Dec. 1980

Mr. GOULETAS. Congressman Rosenthal, the real prices are always depending on what tier, what unit you are referring to. There are all kinds of two-bedroom apartments.

Mr. ROSENTHAL. One says from \$96,000, and one says from \$110,000. I assume they are covering the same general units. Let me read it. It says: "Two-bedroom suites from \$96,000, two-bedroom suites from \$110,000."

Mr. GOULETAS. What tier?

Mr. ROSENTHAL. I do not know. It is your ad. You tell me.

Mr. GOULETAS. We have different tiers. One could be \$96,000, and the other could start at \$110,000. Yes, we have different one-bedrooms, different two-bedrooms, and different prices.

Mr. ROSENTHAL. Maybe I am not making myself clear. I imply from this, if you are interested in a two-bedroom suite, it says: "Two-bedroom suites from \$96,000." This one in the Washingtonian says: "Two-bedroom suites from \$110,000." Do they cover different varieties of two-bedroom suites?

Mr. GOULETAS. I assume they do, Congressman. If I have a unit that I want to sell for \$110,000, I will not sell it for \$96,000.

Mr. ROSENTHAL. Is it correct that one ad included the underlying mortgage and one ad did not include the underlying mortgage? Is that the reason this happened?

Mr. GOULETAS. I do not know.

Mr. ROSENTHAL. I happen to think that that may well be false advertising, and it may well be something for the Federal Trade Commission to consider.

Mr. GOULETAS. In your latest letter, you asked them that, and you have the answer, and I read that letter this morning, and they told you it is not.

Mr. ROSENTHAL. Nobody has said anything like that at all. I think you have made a lot of misrepresentations.

Mr. GOULETAS. Let us pull out all the letters, Congressman.

Mr. ROSENTHAL. Let us pull out all the letters, and I will tell you what we are going to do. We are going to do that at 2 o'clock.

Mr. GOULETAS. Good.

Mr. ROSENTHAL. We are going to recess right now, and we will put all the letters on the table at 2 o'clock.

Mr. GOULETAS. Fine.

Mr. DAUB. Let me ask you a question, Mr. Chairman. Two o'clock for reconvening?

Mr. ROSENTHAL. Yes.

Mr. DAUB. And you will have copies from the majority staff of the answers from the various agencies that have been written?

Mr. ROSENTHAL. We will reconvene at 2 o'clock. The subcommittee stands in recess.

[Whereupon, at 1:20 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

#### AFTERNOON SESSION

Mr. ROSENTHAL. Mr. Gouletas, I want to go back to the question of earnest money because I simply do not understand your testimony, and it may well be my fault.

I spoke to some people at lunch who presumably bought at the Promenade.

Exactly what is the situation? Do people sign a binder, then a contract, and then go to closing? Tell me the exact procedure so that I understand.

Mr. GOULETAS. Would you like me to start from the beginning?

Mr. ROSENTHAL. No. That is a reasonably simple question. In my days as a practicing lawyer, which was a long time ago, you went to contract, the purchaser put down 10 percent, and on the day of closing the bank put up the financing.

My impression of what happens is that they sign a sort of letter of intent or a binder, they put down \$1,000 or something. Then, on the day they go to contract, they put up \$3,000, or something, and then the balance is paid when the thing is closed. What is the procedure?

Mr. GOULETAS. You have to put it in context. In the full context of the company policy, the company policy, number one—as I stated before—is, yes, we take earnest money. However, the word “earnest,” in itself, tells you what the money is for. You are trying to hold the other party responsible to perform a certain act.

Mr. ROSENTHAL. Is that what we would call in the old days a binder?

Mr. GOULETAS. Yes, you can call it a binder.

Mr. ROSENTHAL. How much earnest money do they usually put up, \$500, \$1,000?

Mr. GOULETAS. It depends on each and every case.

Mr. ROSENTHAL. It is not a major amount of money?

Mr. GOULETAS. Right. And that is the difference, by the way, between what you might have in mind, Congressman Rosenthal, dealing with a house and two independent people: one holding his house on the market, and the other one saying: “Yes, I will buy it,” and then looking for damages if the buyer backs out. We do not use that type of philosophy. I am a wholesaler, and—

Mr. ROSENTHAL. I think I can understand.

Mr. GOULETAS. I think you can understand if you just give me 1 minute, since you did come back to it. Give me 1 minute, if you would, Congressman. Would you?

Mr. ROSENTHAL. Go ahead. It is such a simple question and such a simple response.

Mr. GOULETAS. If you take in the philosophy. We do not default people of their earnest money when they do not close. Therefore, it is not an earthshaking thing whether we get \$500, whether we get \$1,000 or whether we get \$10,000 or 10 percent. In many, many cases, including outside buyers we have no knowledge of, tenants in the building who have purchased from us, our own associates, and other people, we have not received full and, many times, no earnest money.

Mr. ROSENTHAL. Do you go from the so-called earnest money event to a contract of sale?

Mr. GOULETAS. Sometimes, yes—one to the other—and sometimes, no, we go directly into a contract. But even in the contract there have been many occasions when we have not received earnest money.

Mr. ROSENTHAL. I will tell you what I am getting at. I am trying to find out how many outsiders—which I think may be speculators,

you think they are something else—you have made exceptions for. How many people have you made sweetheart deals for?

Mr. GOULETAS. No. 1, we do not make sweetheart deals. No. 2, the outsiders you keep referring to as speculators—you know, on one side, Congressman Rosenthal, Congress says: "Nick Gouletas, do you have empathy for the people? Are you doing something for the older people? Are you taking these people into consideration?" And I say: "Yes, I am. What I am doing is, I am extending these people's leases for a year, 2 years, or 3 years—whatever it might be."

Then, somebody says: "Now, since you are extending the leases and you are selling those units to either one of your own associates, or, Nick, you are taking the unit yourself, or an outsider" and these people who are accommodating the elderly become speculators. No; I do not believe they are speculators. Yes; they might be investors. But they certainly are not speculators.

Mr. ROSENTHAL. I do not know the difference between investors and speculators.

Mr. GOULETAS. Let us use the word, investors.

Mr. ROSENTHAL. I met someone at lunch. I do not know if the lady is sitting here or not. She said her husband is 77 years old, and she applied for an extension and was turned down because your people at the Promenade said they were all filled up for the 5 percent, or whatever it is. And she was just turned down.

I do not understand where you are coming from.

Mr. GOULETAS. Mr. Rosenthal, as Mr. Kaplan said—and you could have put Mr. Kaplan under oath if you had liked—it was a committee, it was a committee, No. 1, made up of—

Mr. ROSENTHAL. I heard Kaplan's statement. You know, if you want to run the subcommittee, then you sit here, and I will leave. Maybe we would be better off that way.

It is very important for us to make a narrow record in a certain period of time. We have other people waiting. We have a dozen other witnesses. I would like to finish with you because I know you have important things to do elsewhere.

I heard Kaplan's testimony. You do not have to recount it for me.

This lady lives in the Promenade and told me at lunchtime that her husband was 77 years old, that when she asked for a year's lease or a 2-year lease they told her it was all filled up, the matter was closed, there was no chance.

Mr. GOULETAS. The only way I can answer that question, since I do not know who the party is in the first place, and I do not know what the committee's decision was, the only way is if you would address that to us, and I would be more than glad to then address it to the committee responsible for it and ask them about their decision and why. I think that is the only way a question like that can be resolved.

Mr. ROSENTHAL. Another person I met at lunch, in a period of 20 minutes, it was an aggravating lunch with all these interventions—

Mr. GOULETAS. I did not have any.

Mr. ROSENTHAL. Well, you are probably better off.

At 6:30 this morning, these people were served with a notice to evict from the Promenade. Do you think that is harassment?

Mr. GOULETAS. Congressman Rosenthal, I have no knowledge of any such thing.

Mr. ROSENTHAL. We seem to be in two different theaters.

Mr. GOULETAS. Absolutely.

Mr. ROSENTHAL. Mr. Ashley, whom I have a great respect and affection for, I do not know.

Lud, have you spoken to any people who have been prospective purchasers or tenants of these buildings, or buyers of these buildings?

Mr. ASHLEY. No.

Mr. ROSENTHAL. I have spoken to dozens, maybe 60 to 80 people, and the stories I hear, Mr. Gouletas, are horror stories. I saw people crying in Jenkintown. I hear stories at the Promenade that are beyond belief. Yet you come in here, and I do not want to demean your testimony, but very artfully suggest you have got programs for seniors, that everything is working smoothly, we are talking to different people.

Mr. GOULETAS. I am sorry, but I do not artfully suggest anything. We have programs. These programs can be attested to. We have the leases that Mr. Daub asked if we would present, which we would be more than glad to present. We have programs for the elderly. We have programs for people who have kids in school. We have programs for people who have a disability. We would be more than glad to present these programs.

As a matter of fact, any of those programs, including the people who have been helped in those programs, we would be glad to give you all the names of all the people.

As a matter of fact, the six units that we put aside for my children are six units that the elderly people live in.

Mr. ROSENTHAL. Not six units.

Mr. GOULETAS. I am sorry. I am talking about the six units at the Grosvenor.

Mr. ROSENTHAL. Just in general terms, you bought the Promenade for about \$50 million and have been selling at \$100 million, right?

Mr. GOULETAS. I will let you finish.

Mr. ROSENTHAL. Do any of you think that is not inflationary? Dr. Brimmer?

Dr. BRIMMER. I think the purchase price is the only known element in the situation at this time.

Mr. ROSENTHAL. Say that again.

Dr. BRIMMER. We know what American Invsco paid for the Promenade.

Mr. ROSENTHAL. \$50 million.

Dr. BRIMMER. That is correct. We do not know anything at all about the likely receipts of the Promenade. We have some idea.

Mr. ROSENTHAL. They project a sellout at \$100 million.

Dr. BRIMMER. If they were successful in doing the project completely, and given what the costs might be, that is, the costs of conversion, the cost of money, and so on, which are unknown at this time, we would then, and only then, be able to make a judgment about the net profits of that unit.



Mr. ROSENTHAL. Forget net profits. We get into such problems with net profits around here. Here is my question, and I still have great difficulty in understanding this. That property was assessed at about \$25 million. It is going to be sold out at about \$100 million. Is that inflationary?

Dr. BRIMMER. It is not. We are talking about the purchase price of a particular unit, and the hopeful selling out prices of the average unit we do not know. Once we know what the situation is, it is not correct to say that the change of this price is a change in the general price level. It is not. We are talking about the relative price of one particular piece of property, and it has no direct bearing on the rate of inflation either in the Washington, D.C., metropolitan area or in the country as a whole.

Mr. ROSENTHAL. But if we tripled the value of every similar apartment building in the country we would blow inflation through the roof.

Mr. ASHLEY. Mr. Chairman, the value of an asset can change, according to its use. If you have an asset that is used for rental purpose its value can be  $x$ . If you use that same piece of real estate for homeownership the value can be  $2x$ . And that is not inflation. That is simply a change in value by consequence of a change in use.

Mr. ROSENTHAL. Not a change in use. The use is the same.

Mr. ASHLEY. But homeownership is a different form of right, certainly, than that of tenancy, and there is a greater value that is put on it.

If you have a raw piece of land that is worth  $x$  amount of money and you put in an infrastructure, it can be 10 times that.

Mr. ROSENTHAL. That is exactly the point I am trying to make. If you have a raw piece of land and you build something on it, you have constructed something new. They have constructed nothing new. They took the same piece of property that on Thursday is worth \$25 million and on Friday is worth \$100 million. Is that inflationary? You say no because the character of the ownership changed, and the ownership attributes are so valuable, inherently valuable, that it increases this thing.

Mr. ASHLEY. It does increase. Ownership has a value that rental does not.

Mr. ROSENTHAL. All right. Let me just conclude this phase. We will keep going as long as we can. We have some of your distinguished colleagues present, and I think they want to testify, too.

Do you have any notion in any building what percentage of the people were forced to turn down the opportunity of ownership and had to move out, seniors, nonseniors, young people, men, women, or anything? In other words, I would like to have an idea of the inventory of people who were reshuffled as a result of this process in his buildings.

Dr. BRIMMER. Mr. Chairman, in the report that I asked be made a part of the record on page 99, there is a table summarizing the experience of buyers and nonbuyers in four American Invsco buildings. The Grosvenor is among them, the Plaza 400, Beaver Hill, and the Promenade.



We got the data from American Invsco. They were turned over at our request to a computer firm that did the tabulations for us to help sketch these profiles, and they are reported in this document.

At the Grosvenor, which was the most advanced of the units in terms of selling programs, of the 1,000 units, 979 units were occupied by households. Of those, the number of buyers turns out to be over half—almost three-fifths.

Mr. ROSENTHAL. About 50 percent of the occupants stayed there.

Dr. BRIMMER. Over 50 percent, almost 60 percent not only stayed but bought.

Mr. ROSENTHAL. Do we know how many left voluntarily, involuntarily, or do we assume that 40 percent were involuntary?

Dr. BRIMMER. Of the occupants, virtually all of those who bought stayed. We know that from these data. And of those who remained renters, a substantial proportion stayed in the building. So the net attrition out of the building was a much smaller fraction.

Mr. ROSENTHAL. What was the proportion out of the building?

Dr. BRIMMER. These were data at the time of the transaction. We do not know what the traffic has been since because the way the information was put together for us, and the way the records were available; by the way, it was only at the time the building was converted.

Mr. ROSENTHAL. Dr. Brimmer, do you know what the net attrition out of the building was?

Dr. BRIMMER. I do not know that, Mr. Chairman.

Mr. ROSENTHAL. Do you know what the net attrition out of any of the buildings was?

Dr. BRIMMER. I do not know that because we have not tracked it subsequently.

Mr. ROSENTHAL. But that is such an important social critique of this whole process.

Dr. BRIMMER. Mr. Chairman, in this report we do have some data on renters as a whole. We know that the turnover rate in rental apartments is very high. Even in the luxury kinds of buildings you have a somewhat higher turnover rate. So the fact that someone moved out of a building—

Mr. ROSENTHAL. We are trying to find out how many people were forced out. For instance, in Plaza 400, Gina Lollobrigida moved in, right? She is one of the people who moved in. I would like to know who moved out so she could move in.

Mr. GOULETAS. Nobody.

Mr. ROSENTHAL. Nobody would get out. [Laughter.]

Frankly, hers is an exceptional case, I will say that. But that is the problem.

What we have done is put different categories of people on different escalators, some in, some out. And the question is, who is going to look after those who have gone down on the down escalator.

Mr. GOULETAS. Speaking about the 400 again, since you mentioned Gina Lollobrigida, the people moved out, by the way, and this is why it is sometimes a little difficult to track. Some people did move out. Even though we had, and I will use a figure of 96 to 100 percent of purchasers, which, for all intents and purposes, says

that almost everybody bought, other than those people who were on the old age program. Some of those people still moved out.

We know at this particular time that 11 of them actually resold their units and made over \$100,000. I imagine that with that \$100,000 they could have gone out and bought another unit, they could have bought a house or many other things with that kind of money.

You can say that those people were displaced. I do not know that they were displaced.

Mr. ROSENTHAL. Mr. Daub.

Mr. DAUB. First I want to ask Mr. Gouletas if he will make available for the record the replies he talked about before the recess from the various Federal agencies of Government that have had inquiry from this subcommittee with respect to his activity.

Mr. GOULETAS. Yes. I would like to make available not only the replies but the original letters as well that went out to these agencies, asking them to look into the activities of American Invsco, and the replies after each and every agency, and at this point, believe me, I do not know how many agencies the Government has, but there have been at least seven or eight—

Mr. DAUB. Do you have them here with you right now?

Mr. GOULETAS. Yes, we do. Would you like me to turn them over?

Mr. DAUB. May we have them made a part of the record, Mr. Chairman?

Mr. ROSENTHAL. Why not?

Mr. DAUB. The chairman has indicated that they can be made a part of the record.

Mr. ROSENTHAL. Without objection, they will be included at this point.

[See appendix 2.]

Mr. DAUB. Mr. Chairman, I do not have any more questions.

Mr. ROSENTHAL. Mr. Atkinson?

Mr. ATKINSON. I have just one.

The Federal National Mortgage Association requires that 80 percent of the building be owner-occupied and 20 percent can be investment and what-have-you. Are you in compliance with that? The point I want to make is that I have to assume that once a building is purchased some apartments remain vacant. Obviously, they are owned by Invsco. Who else?

My point is: Do you have any problems with the fact that, maybe because of the transactions or the money market, a lot of people cannot stay in that building, and they start looking elsewhere because somewhere down the road they cannot meet whatever the requirements are.

My question is: How many apartments are vacant in the properties that you own? What is the rate of occupancy in any of them, the Promenade, if you want. I am just talking about the whole overall picture because I have to assume that there has been that kind of money in the overall financing of these properties.

Mr. ASHLEY. If I could respond, the Federal National Mortgage Association has its own requirements as a secondary market facility. What it does, of course, is to buy mortgages from the originator of the mortgage—either a mortgage banking concern or a thrift institution in most instances. What it says is that for its own

secondary market purposes it will purchase mortgages of condominiums or cooperative mortgages only where there are 80 percent owner occupiers.

You see, it is not up to Mr. Gouletas.

Mr. ATKINSON. I understand that.

Mr. ASHLEY. He is not even involved in the original financing of the unit.

Fannie Mae's purposes are very different than those of American Invsco. That is all I am saying, Mr. Atkinson.

Mr. ATKINSON. If the money is used up in that area, and this is one of the criticisms that comes up, then there are fewer moneys available to others who would like to construct, build new housing.

Mr. ASHLEY. If I can pursue that for a moment, it is awfully hard to track the extent of an investment or speculation, whichever you want to call it, whether it be single-family detached, whether it be condominium, or whether it be Cadillac convertibles—a very good thing, as a matter of fact, to speculate in.

It is very hard to get data because we do not trace the motives of the people behind the transaction. It is not a matter of primary interest to a converter of rental to condominium ownership as to whether that unit is going to be used by an investor for rental to others or for sale later on. I would not think that would be a matter of any great interest to anybody in this business, any more than it is of any interest to anybody who is selling single-family detached housing.

Dr. BRIMMER. Mr. Atkinson, we did address ourselves to this question in some detail in our report. I will just cut through it quickly and answer the question as follows: Two potential homeowners, one to buy a \$100,000 detached single-family home of the traditional sort, the second one to buy a \$100,000 condominium, a dwelling unit in which that family will live, each putting down, let us say, 20 percent, each financing 80 percent with the going mortgage rate.

Is there any basis for defining the first buyer as more deserving than the second buyer?

Mr. ATKINSON. Not in my view, no.

Dr. BRIMMER. And that is the nature of the mortgage market today with respect to condominiums. No more money is going into condominium units than any other kind of homeownership. In some cases it may very well be less. And that is the correct view of the mortgage market.

Mr. ROSENTHAL. Would you yield?

Mr. ATKINSON. Certainly.

Mr. ROSENTHAL. I have a dilemma or problem with the position you took. If a single-family homeowner sells to a purchaser and a purchaser obtains a mortgage, we all agree that is a good, healthy thing. You do not see any distinction between that and a condominium purchase. Is that correct? There is one distinction. The condominium process may have used an eviction to remove someone from a housing unit. That is the distinction.

Mr. ASHLEY. The same can be said of the other, too.

Mr. ROSENTHAL. No, in the other the homeowner voluntarily sells his asset, for which he gets money, and he relinquishes possession.

Mr. ASHLEY. The same thing can happen in a single-family detached. There are a lot of people who rent there. When their lease is up, they can be evicted.

Mr. ROSENTHAL. We know that.

Mr. ASHLEY. Well?

Mr. ROSENTHAL. But do you see the point, Dr. Brimmer? You do not see any distinction between a single-family homeowner obtaining a mortgage from a bank and the sale of a condominium? In the sale of the condominium, many, many people are dispossessed in the process involuntarily.

Dr. BRIMMER. Mr. Chairman, I put the emphasis on the buyer of the condominium. That is who gets the mortgage, the buyer, not the seller.

Mr. ROSENTHAL. You do not recognize the fact that in the interim process there was a presumed innocent bystander who either did not have the income, was too old, was too disabled, or could not take advantage of the process.

Dr. BRIMMER. I can appreciate your wishing to introduce those considerations.

Mr. ROSENTHAL. That is your position?

Dr. BRIMMER. My position is that, with respect to the question Congressman Atkinson asked about access to the mortgage market, I was answering that they have equal standing in access to the mortgage market.

Mr. ATKINSON. Thank you.

Mr. Fitzpatrick, would you try to respond.

Mr. FITZPATRICK. I just wanted to make clear from the research that we have been able to do that this 80 percent requirement is something of a phantom. We have looked in the regulations in vain to find it, and we would like to discuss with the staff their derivation of that figure.

Mr. ATKINSON. Thank you.

Mr. ROSENTHAL. Mr. Clinger?

Mr. CLINGER. Thank you, Mr. Chairman.

There has been some suggestion in these hearings in the last 3 days, that what we have here is a kind of inexorable tide of conversions from rental properties to condominiums, and that if this accelerating tide of conversion goes to the furthest extreme, we may have no rental properties, or at least a severely diminished supply of rental properties available in this country. I think that is the sort of public policy issue that we are concerned about.

I would be interested in the response of the panel as to what the continuing impact of this process may be, say, 5 years down the road. Is this going to be a process that peaks at some point and then trails off, or do we look toward a kind of upward curve of condominium conversion for the foreseeable future? I would address that question to Mr. Gouletas on the basis of his experience, and the other two gentlemen.

Mr. GOULETAS. In operating in a free market, as I said earlier, I believe that people and investors will put up the necessary funds to put up additional rental housing, hold it for a period of time, divest themselves through the conversion process, and receive capital gains through our tax system, if there is a free market.

On the other hand, if there is the cloud of rent control, if there is the cloud of moratoriums on conversions, if there is the cloud of stopping the conversion process in some way, the free market, the private investment segment—and I think as a businessman I can address myself to that—will not develop rental housing. They will go into office buildings, shopping centers, and other real estate investments. There is nothing to say that they have to go into rental housing.

However, we have seen, as I said before, at least six to a dozen buildings being put up as rental housing in Chicago. As a matter of fact, we are putting up a condominium building right now, and we have the lot next door, and our thoughts are: maybe we will put up a rental and hold it for 4 or 5 years, as long as we believe that somebody will not take our rights to divest and bring the capital back out at some point or somebody tell us that we are going to have rent control and have to subsidize that building forever.

Mr. CLINGER. Are you saying that if we do nothing at the Federal level, the conversion process will continue and accelerate, or at some point an equilibrium will be reached whereby the market would no longer sustain further development?

Mr. GOULETAS. I am saying that the free marketplace will address themselves to the need for rental housing if there is a demand for rental housing, and they will invest in the rental housing.

However, you have to allow them to divest because at some point the tax curve does come back down. It is approximately somewhere in the 7- to 10-year basis. If they cannot divest, and if they cannot receive something for their capitalization and the risk they took, no, they will not go into rental housing. You cannot take that alternative away from someone and expect them to make that investment.

As we have inflation, this building itself was projected to be constructed at approximately \$50 million. It cost \$100 million when it was completed. Today, if you tried to replace it, the value of the improvement is over \$200 million. That, you can say, is inflationary. But we are standing right here in this house that has doubled its value from the time that it was constructed.

Mr. CLINGER. Dr. Brimmer, did you have something you wanted to add to that?

Dr. BRIMMER. I believe the trend toward small home ownership will continue. More and more small families and young people want to own their own homes. That will continue and will accelerate.

How can that demand be satisfied? Either build new single-family housing of smaller size or build new multifamily condominiums with the small units or convert some of the existing rental properties to condominiums.

I believe over time the conversion of existing units will be a decreasing share of the total because as the demand is registered, entrepreneurs will respond. They have been responding.

For example, in 1979, there were about 132,000 conversions but 173,000 new construction condominiums.



We estimate that in 1980, conversions were 100,000. That's a Citicorp estimate. Our own estimate is that new construction was about 165,000.

So the market will sort out the way in which that demand will be met. Over the long run, I believe, based on our own analysis, the conversion component as a share of the total will decrease moderately while the new construction will add a bigger supply.

But the real story is this inexorable drift to homeownership. Renting will decrease over time.

Mr. CLINGER. Thank you.

One of the suggestions we had earlier in the week was that in many instances where the conversions take place the buildings are sold that are substandard as far as fire codes, building codes, and so forth.

The suggestion was made that perhaps we should enact a law that would require the buildings to be brought up to fire code standards and safety code standards and so forth before they were allowed to be converted.

Let me ask this of Mr. Gouletas. Are the buildings that you purchase generally substandard in terms of fire and safety codes?

Mr. GOULETAS. If I may say this, Congressman Clinger, those buildings were put up somewhere in the last 7 to 15 years. They were inspected upon completion of the construction. Somebody issued a safe occupancy permit to each and every one of those units.

Now if we are talking about the safety of those people, they have been living safely, supposedly, in that unit up until today. Are they going to be any less safe tomorrow morning in a condominium than they were today?

I have seen municipalities try to use that type of reasoning to actually have an excuse to stop a conversion.

One municipality did ask that every unit would be put into a separate heating and air-conditioning unit instead of the central heating and air-conditioning unit. This didn't make any sense.

The central heating and air-conditioning system was a beautiful system. It worked great.

All that would do is cost the developer another \$5,000 to \$15,000 to have separate air-conditioning or heating systems put in, that would have to be passed on to the new buyer. So it doesn't make sense.

However, I can assure you of this, Congressman. In each and every building that is converted, the security is better after the conversion than before. The fire protections or alarms and everything are better after than before. There is definitely an improvement.

The nicest thing of all is that you now have a homeowner's association which is represented by people in that building. You have committees, just like Congress has committees, that say what can we do to make it a safer building; what can we do to take care of any problems that we have.

The biggest problem, by the way, that you have in condominium buildings is dogs. Some people don't like pets, and they get into a fuss about whether you should have pets or should not have pets.

That is the biggest problem that we face in the condominium association, as opposed to safety regulations or fire regulations.

I have sat on many, many boards and the pet problem comes up as a big problem.

Mr. CLINGER. Thank you, Mr. Chairman.

Mr. ROSENTHAL. Mr. Levitas?

Mr. LEVITAS. Thank you very much, Mr. Chairman.

I appreciate your letting me participate in these hearings today and earlier this week. As you know, I have been much interested in the work that this subcommittee has done in this area, serving as a member of the subcommittee during the last Congress and the Congresses before. My interest has not waned.

I have a number of questions. I recognize that I have had to be in and out today, so if I direct a question to any member of the panel that you feel has already been adequately made a part of the record, just let me know that and I will check the record.

But I think these hearings are very important. I think they raise issues that need to be raised and aired publicly and discussed and debated. As Mr. Gouletas said earlier, there may be a difference in philosophy as to part of this and that also needs to be aired.

But this Congress is the place in the United States where policy decisions and economic decisions have to be eventually made and, therefore, we need to get into it.

I would like to go into a couple of areas.

The first question I would like to direct to Lud Ashley.

During your testimony, you stated that in the housing area, the Federal involvement has either been direct or indirect in these two categories for the purpose of either directly providing housing or stimulating housing development and creation.

My first question to you in that regard is to what extent does the phenomenon of conversion of rental units into condominium units respond to or meet either of those direct or indirect Federal interventions?

Mr. ASHLEY. The reason for the condominium activity is because of the operation of the free marketplace—the housing market and the financial market.

That is why conversions are taking place.

Now the Federal response to condominiums is another matter entirely. The decisions to date have been very tepid and very cautious in terms of a Federal response.

In other words, we have reviewed a phenomenon which is taking place in the marketplace. We have responded very cautiously to that. We have said, yes, people are being displaced as a result of condominium conversions, just as people are being displaced by various forms of public construction and activity.

We have taken the view that there should not be a relocation program similar to that which was on the statute books for purposes of finding and making possible relocation of people who were displaced by that Federal public activity.

Instead what we have said is that we will give displacees in the conversion process the first preference as far as sections 8 and 235 housing are concerned, where those families would be interested in relocation into housing, which is obviously for moderate-income families.

We said last year, in reviewing the condominium problem, that this was not primarily a Federal problem; that condominium conversion was going on in various housing markets throughout the country. It was in those jurisdictions that the primary responsibility rested for addressing the various problems that attend the condominium conversion process, one of which is displacement, to be sure.

This is not saying that in a broader domain the Federal Government has no interest. It does have an interest.

That interest really goes to the two forms of intervention that I talked about at some length this morning in trying to bring into balance the forces of supply and demand in the housing marketplace. They are not in balance at the present time.

Mr. LEVITAS. You are getting close to what I am interested in. Certainly I agree and based on what I have heard, others agree, the human problem of dislocation is a problem of some significance. Whether it is best-addressed at the Federal, State, or local level we may have disagreements on; but it is not a problem we can simply ignore as a matter of social policy.

I guess the simple question I am asking you is: Does the phenomenon of condominium conversion create additional housing units?

Mr. ASHLEY. It reflects a mismatch in the marketplace. It reflects an imbalance between the forces of supply and demand, in my judgment.

We have to be careful how we put this.

I am talking about effective supply and effective demand.

In the past 10 years, we have seen the median-priced single-family home triple in cost.

Mr. LEVITAS. So people want to buy condominiums if they want to have ownership.

Mr. ASHLEY. The percentage of Americans today who can afford the median-priced single-family home is less. There are fewer Americans, percentagewise, than in 1970 who can afford the median-priced, single-family detached, which was about \$34,000 at that time.

Mr. LEVITAS. I understand that.

What you are saying is that the movement toward condominiums, whether they are newly constructed or converted, is an effort to fill in the ownership gap between the single-family home and—

Mr. ASHLEY. That is exactly right.

Mr. LEVITAS. I want to make sure that the record is clear that the condominium conversion phenomenon, not condominiums abstractly or in general, does not create new housing.

That may be good or bad. I just want to know what the facts are.

We do have Federal policies which deal in all these areas.

By way of digression, the other day when President Reagan addressed Congress, he made one of the most remarkable statements. It was so obviously incorrect, that I just couldn't believe he said it.

He said we ought to let the tax system just get back to the business of collecting taxes and get out of the business of setting policy.

The whole tax system is setting policy.



Therefore, my question is: If the deduction of interest on home mortgages is a tax policy incentive, should we be looking at the utilization of that policy in responding to our housing needs?

Mr. ASHLEY. Absolutely.

Over the many decades that tax policy has been used to encourage homeownership, and it has been used for that as you pointed out, there has been a concomitant awareness of the need for rental housing, up until about 10 years ago. Then there was a faltering in terms of tax policy, with the consequence that the incentives necessary for continued investment in rental property simply were not there. There began then to be a shortfall on the supply side of rental housing.

Mr. LEVITAS. You have addressed the mortgage interest question in part. Let me give you two other tax policies. Both of them we are going to be addressing in this Congress—depreciation versus capital gains.

If you have a tax policy in which you encourage accelerated depreciation of residential rental units to a much greater extent than is true today, you create more of an offsetting economic incentive to invest in rental properties than you do under the present situation of encouraging condominium conversions where you are relying upon the capital gains incentive.

I guess that is the area I am interested in at this point.

It seems to me we are talking about what is the impact out in America of our policies, whether it is capital gains versus depreciation, interest deduction, section 8, FHA mortgages, FSLIC guarantees. Why are we doing all of this? What is the social end that we are trying to attain?

Mr. ASHLEY. I will defer to Dr. Brimmer. I will simply say that we had better think through tax policy if we mean to encourage rental housing. As long as we rely heavily on depreciation, all that does is set up a sale when the depreciation schedule has run down.

I think this is a matter that the Ways and Means Committee has to look very, very carefully at.

Mr. LEVITAS. Dr. Brimmer?

Dr. BRIMMER. Mr. Gouletas wants to answer one question you asked earlier, and then I will respond.

Mr. GOULETAS. One of the questions that you asked was whether condominium conversion creates any new housing.

I believe that it creates new housing in two ways.

One, it allows the stoppage of deterioration of a certain amount of the housing that had you not had the conversion, could have deteriorated and gone into the category of abandonment at some point.

I do believe in that way, if you can look at the 5- or 10-year program, it does it in that way.

Second, it encourages the rehabilitation. Again, I can point to areas I am familiar with. If you go into the uptown area and ask the committee people down there whether that has encouraged the rehabilitation of units in their area, I am sure that the answer is absolutely it encourages rehabilitation.

You can't always put those units back on the market as rentals, because the refurbishing costs that went into them to rehabilitate

them quite often exceed what the people would pay as a rent. However, they would pay that much to own the units.

The other thing that conversions do to create new housing is that you will find that with the conversion process having been successful, they are now starting to convert, for instance, loft buildings in New York, buildings that were not habitable before, at least not as residences. Most of them were empty.

They are now turning the use from buildings that were not used at all or slightly used to housing units.

I know, for example, the Furniture Mart in Chicago, right on Michigan Ave., became economically unfeasible. The business had run down. There was nothing there. That building is now going to be converted to condominiums.

The project is going to cost \$100 million to convert. It will supply hundreds of units of housing, put more money back on the tax roles that was not there before, and supply jobs in order to invest \$100 million.

There is a school in Lake Forest, a college, that became economically unfeasible. It is being converted to condominiums.

Mr. LEVITAS. I guess when I was talking about conversion, Mr. Gouletas, I meant not building conversion, but conversion from a property that was originally a rental unit.

I would consider the Mart, for example, and that school—and there are several other examples—as more the recognition of economic feasibility of an existing structure, which is being used for a different purpose, rather than a house.

But I understand your point, and I appreciate it.

Dr. Brimmer?

Dr. BRIMMER. First, I would just answer no. The conversion, in general, does not create a new stock of housing but it does change the use of that existing housing stock.

What I have been saying and what many of my colleagues and others who have looked at these markets have been saying is that the increased demand for the use of that existing stock is in the form of ownership.

So it is the ownership demand that is growing most rapidly, and that is one way to satisfy it.

Mr. LEVITAS. I guess that was the thrust of my first question to Mr. Ashley, which is basically this.

There are a lot of reasons why this is done. One is the idea that you want to own. There are reasons for wanting to own which are metaphysical. There are other reasons for wanting to own something which are economic.

The question that we in Congress have to answer is do our tax policies and other policies encourage the type of ownership or housing that is appropriate?

The last question I would like to direct to you, Dr. Brimmer, is this. It is something that Mr. Gouletas touched upon. There are two aspects to it.

First of all, does your research indicate the increased investment in rehabilitation of rental units converted to condominiums as it compares to the overall increased value of the properties upon resale?

Dr. BRIMMER. No, Mr. Congressman. My research does not indicate that. It only indicates the number of units converted each year, not how much was spent on them and how much was spent in rehabilitation.

Mr. LEVITAS. Let me ask you another aspect of that question.

This is a question that I know the chairman has been raising in different ways from time to time.

Here you take a property that is valued as a rental unit at  $x$  dollars. It is converted to a condominium use. It is now valued at a higher value for purposes of resale.

What are the direct additions to improvement that are reflected in that higher value, and what are the unearned or unreal or intangible increases that result? Other than the tax policy of this country, is there any reason for permitting this?

Dr. BRIMMER. First, I have no way of knowing in any particular transaction how much is for improvements, and so on. But I could answer—by the way, the issue did come up earlier and I did respond to it.

I would ask you to consider, again, the following kind of situation: a beautiful piece of a mixture of farm and forestry land.

Someone comes along and says: I see the urban population looking for recreation. I will offer that farmer a price to buy that land and turn it into a recreational park. All I am going to do is buy the land, put a fence around it and few little ponds and change the use.

My hunch is that the second use is so much more valuable, in terms of prospective earnings and benefits from it, that that purchaser will pay far more for that use than keeping it in farmland.

It is exactly analogous.

Mr. LEVITAS. No, I don't think it is, as a matter of fact.

I think that is the question I have in my mind. I am a great believer in the free enterprise system. If anybody—and I am not suggesting this is the case here, and I don't mean to be facetious—can take that well-known sow's ear and turn it into a silk purse, then fantastic. That's great. That is what it's all about.

If people want silk purses instead of sow's ears, wonderful. I don't complain about it.

But here is why I don't think your analogy is correct.

You said changed use. What I see in the case of the rental unit converted into a condominium is that you essentially, aside from the rehabilitation work that is done which I was trying to quantify, what you have done is not change the use but changed the form of ownership, if you will, or the nature of my legal relationship to Black Acre. Instead of having a lease contract, I now have a fee simple deed.

By that magic, I have somehow or other created an added value.

Dr. BRIMMER. We have changed the use. It used to be a piece of property in which the occupant was a renter paying rent for housing services. He owned not one scrap of it.

Now he is owning a piece of property which also serves as a place in which to live. It is an asset now. It is an asset which you might expect to appreciate over time.

The converter who buys the building and offers the present owner a price for it cannot offer more and remain in business than he can reasonably expect to sell it for.

How much he can sell those units for will depend upon the strength of demand for those units. There are demanders who want it for asset purposes, as well as housing purposes.

Mr. LEVITAS. This is an area that I think is very fundamental to this whole discussion. That is why I am going to be pursuing it, if I may, during the next few months.

The last comment I would make, Mr. Chairman, before completing is this.

Our former colleague, Mr. Ashley, said that this phenomenon was responding to a change in market mix and market desires, I guess it was, as a result of economics, that is another area that is critical to this. The question is which came first here the chicken or the egg.

A lot of times until I see an advertisement on television, I didn't know I needed what it was they were selling. All of a sudden, I found out I needed it. Until then, I didn't.

A lot of people didn't know that they wanted to buy a condominium until they couldn't find another place to rent. Maybe the process of condominium conversion itself may have contributed to creating the demand in the marketplace. I don't know. I really don't know. I am just curious about that.

Mr. ROSENTHAL. I have one more question, and then you are finished for the day.

Could you explain to me again the difference in these ads. Maybe you would like to see them. Would that be helpful? Would somebody take these down to Mr. Gouletas.

The ad in the Washington Post says two-bedroom suites from \$96,000. The ad in the Washingtonian says two-bedroom suites from \$110,000.

Maybe if you looked at it, you could tell us what the \$14,000 difference is.

Does one take into account the underlying mortgage and the other not? What is the difference?

Mr. GOULETAS. Do you have the dates on these ads?

Mr. ROSENTHAL. I think they are on there.

The Washingtonian magazine is December 1980. The Washington Post is a couple of days ago.

Mr. GOULETAS. I think you can appreciate, Congressman, that, first of all, I am not familiar with the ads.

Mr. ROSENTHAL. Maybe Kaplan knows or somebody like that.

Mr. GOULETAS. I am sure Kaplan does not know about the ads.

I would be glad to look into the ads and submit to this committee a statement of exactly what the difference is.

Mr. ROSENTHAL. I am a simple person. I see two-bedroom suites from \$110,000 and two-bedroom suites for \$96,000. I can't figure it out.

Mr. GOULETAS. Congressman, I would be guessing. I do not want to be guessing.

Mr. ROSENTHAL. You must have about 15 people here. Maybe one of them is from the Promenade.

Mr. GOULETAS. Congressman, you have me under oath. I don't want to guess. I would be more than glad to supply this committee information after researching it and seeing exactly what the ads

are all about and give you a full report on the ads. I hope that is satisfactory to the committee.

Mr. ROSENTHAL. It is almost satisfactory.

[The information referred to follows:]

AMERICAN INVSCO'S RESPONSE TO  
QUESTIONS REGARDING ADVERTISEMENTS  
FOR UNITS AT THE PROMENADE

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During the hearings of the Subcommittee on Commerce, Consumer and Monetary Affairs held on April 1, 1981, Chairman Rosenthal asked Nicholas S. Gouletas, Chairman of the Board of American Invsco, about the unit prices stated on two separate advertisements for units at the Promenade. One of the ads, which appeared in the December 1980 issue of The Washingtonian, advertised "2 Bedroom Suites from \$110,000." The other ad, which appeared in the March 28, 1981 issue of The Washington Post advertised "2 Bedroom Suites From \$96,000." Chairman Rosenthal asked why 2 bedroom suites were advertised in December from \$110,000 and in the following March from \$96,000.

As explained in detail in the Company's earlier submission to the Subcommittee:

"The chief difference between a cooperative and a condominium is that a building owned by a cooperative housing corporation may have a single mortgage on the entire building, whereas each condominium unit owner may have a separate mortgage on his individual condominium unit. The owner of stock in a cooperative does not assume or become liable for payment of the mortgage



on the building. The monthly payment of principal and interest on the common mortgage merely represents one of the recurring expenses of the cooperative corporation, along with other expenses such as maintenance charges, real estate taxes, etc. These mortgage payments are included in the annual budget of the cooperative corporation, and are recovered, along with all other expenses, through monthly assessments against the stockholder tenants. Thus, the common mortgage on a cooperative is not part of the purchase price of the stock of the corporation purchased by a unit purchaser.

The existence of a common mortgage on the Promenade and the portion of the monthly assessment for each unit attributable to the monthly payments of that mortgage are disclosed in detail in the Promenade Property Report at p. 13 and Exhibit A-4. Prospective purchasers are given access to the Property Report at the time they visit the Promenade Sales Office and they receive their own copy if they contract to purchase a unit. In addition, each prospective purchaser visiting the Sales Office is given a full explanation of the existence of the underlying mortgage and the carrying charges attributable to it. Thus no purchaser enters into a purchase contract without being fully apprised of the total financial obligations he or she is undertaking." American InvSCO's Response to Charges Made by Tenant Witnesses at the Subcommittee Hearings on March 30, 1981, Response to Charge 1(b).

The March 28 ad was consistent with these principles.

The Company had previously reviewed its December Washingtonian ad and determined that it erroneously included in the prices shown a portion of the single mortgage on the building which, in fact, overstated those prices. Upon discovery of that fact, the Company revised their advertisements as reflected in the March 28 issue of The Washington Post.

Mr. ROSENTHAL. Do you have your Promenade person here?

Mr. GOULETAS. No; he's not.

Mr. ROSENTHAL. You have a lot of other people here though.

Mr. GOULETAS. But he's not here.

Mr. ROSENTHAL. But you knew the Promenade was one of the things we were going to talk about.

Mr. GOULETAS. I had no idea of all the things you would be talking about.

Mr. ROSENTHAL. Anybody who is familiar with the Promenade sales program is not here.

Mr. GOULETAS. Congressman, I would be elated to give you—

Mr. ROSENTHAL. That wasn't my question. My question is, is there anybody familiar with the Promenade sales program in this room? Do you want to take a quick look?

Mr. GOULETAS. The gentleman in charge of the Promenade sales is not here.

Mr. ROSENTHAL. Where is he?

Mr. GOULETAS. I presume he is at the Promenade.

Mr. ROSENTHAL. Is Mr. Menegas knowledgeable on this subject?

Mr. GOULETAS. He is not involved in the Promenade at this point. He has not been involved for the last 4 or 5 months. He is in the Chicago area. I know he is here, but he is involved in the Chicago area.

Mr. ROSENTHAL. Thank you very much. We are very grateful to you for appearing before us.

Mr. GOULETAS. I would like to thank the Congress for having me. I appreciate it very much.

Mr. ROSENTHAL. Would you say that again?

Mr. GOULETAS. I would like to thank the Congressmen and the Congress for having me. I appreciate it very much. I think democracy does work, and I am very proud to see how democracy works.

Mr. ROSENTHAL. It works much better when you hire a very distinguished law firm. Let me tell you that. [Laughter.]

Mr. GOULETAS. Thank you, sir.

[The prepared statements follow:]



TESTIMONY OF THOMAS LUDLOW ASHLEY, FORMER MEMBER OF CONGRESS  
AND ATTORNEY AT LAW, BEFORE THE SUBCOMMITTEE ON COMMERCE,  
CONSUMER AND MONETARY AFFAIRS, HOUSE GOVERNMENT OPERATIONS  
COMMITTEE

April 1, 1981

For the record, my name is Thomas Ludlow Ashley and I am a recent addition to the legal fraternity here in Washington, as well as Toledo, Ohio, which I was privileged to represent in the Congress for 26 years. During those 26 years, I served on the House Banking Committee's Subcommittee on Housing and Community Development, the last four years as Chairman. I am appearing here at the request of American Invsco.

My purpose here this morning will be to review briefly the relatively short history of Federal involvement in housing and to try to place in some kind of perspective the Federal government's response to the condominium form of home ownership and particularly to the stepped-up pace of conversion of rental property to condominium ownership.

The evolution of Federal housing policy can be traced back to the depression years of the 1930s when collapse of the financial markets suddenly threatened the equity of millions of homeowners. The Congress responded by establishing the Home Owners Loan Corporation and, in 1934, the Federal Housing Administration to provide Federal insurance for long-term, level payment loans. The Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation followed, providing additional low-cost funds both directly and through deposit insurance.

This was the beginning of Federal intervention to protect and facilitate home ownership, a Federal role that Congress has reaffirmed every year since.

In the Housing Act of 1937 Congress established the Public Housing program, with a Federal guarantee of the debt issues and annual subsidy payments to local public housing authorities.

This was the first instance of Federal intervention to assist directly in the provision of decent shelter for low-income Americans economically unable to participate in the private housing market. This Federal role likewise has been affirmed on a regular basis by Congress.

These two forms of intervention are important to keep in mind because they are keyed to the two basic areas of Federal involvement in housing and they underscore the separate approaches relied upon over the years to respond to changing needs and circumstances.

At the risk of oversimplification, the first form of intervention involves a broad range of indirect Federal assistance aimed at facilitating access to the private housing and financial markets for millions of Americans whose entry or participation would otherwise be impeded. Beneficial tax treatment, deposit and mortgage insurance, and the development of secondary mortgage markets are examples of this type of assistance.

The second type of Federal intervention is fundamentally different. Instead of indirect assistance that relies primarily upon the existing private housing and financial markets, it creates a market by providing the direct subsidies necessary for low-income families to have access to decent shelter.

The distinction between these two avenues of Federal involvement is relevant to these hearings because the relatively recent advent of condominium construction and conversion has not been the result of a market created by the Federal government, but rather is the consequence of supply and demand forces in the private marketplace. In these circumstances, Congress has responded in ways that may appear confused and contradictory but which I believe are basically consistent with Federal housing policy principles that span nearly five decades and involve the two basic forms of Federal intervention that I've described.

In the 1978 and 1979 Amendments to the Housing Act, for example, Congress took steps to assure that rental housing projects assisted by HUD and the Farmers Home Administration would remain available as rental housing. For a Farmers Home direct-financed multi-family project, this was accomplished by requiring Agency approval for the prepayment of any loan. For HUD-assisted Section 8 new construction projects, the legislation was altered to require HUD to enter into contracts of a minimum term

of 20 years. Most HUD projects subsidized under Sections 221(d)(3) and 236 of the Housing Act are already subject to a 20-year low income use limitation for mortgages that do not receive rent supplement assistance and for 40 years on projects that do receive such assistance.

Some housing observers have suggested an inconsistency on the part of Congress in forcing HUD and Farmers Home to assure that the lower income, Federally-assisted housing stock is maintained as rental property (in other words, prohibiting conversion) while allowing Federally-regulated lending institutions and the Federally-related secondary mortgage market to finance and otherwise facilitate condo conversions.

My response to this is that when HUD and Farmers Home underwrite the development of rental housing for low-income tenants, the Federal government creates a market and therefore has both an interest and a responsibility to see to it that those rental units remain available for their stated purpose for a sufficient period of time to satisfy the taxpayers' investment.

Providing Federal deposit insurance and establishment of secondary mortgage market facilities, however, were never intended as instruments of direct intervention to assure the continued availability of unsubsidized rental units, nor was it the intent of Congress that these programs be used as a means of allocating credit for various purposes unspecified by statute.

To the contrary, the purpose of deposit insurance was to encourage savings by vouchsafing their security, while the object of secondary market facilities was to provide liquidity for the primary financial intermediaries that write long-term mortgages.

In short, these Federal activities were not undertaken to regulate or control markets created by the Federal establishment, but rather to augment and support the private financial and housing markets in their efforts to meet the growing housing requirements of our population.

The point I want to make, Mr. Chairman, is that over the years the Congress has shied away from housing

legislation seeking to manipulate or otherwise cause the non-Federally created markets to produce various social objectives.

Admittedly, the record isn't black and white. In 1968 Congress found it necessary to regulate interstate land sales but it did so only after extensive hearings over a three-period documented widespread deceptive and fraudulent practices which, by their interstate nature, were largely beyond the control of individual states.

This was hardly the situation last year when Congress was called upon to consider legislation affecting condominium sales, and in particular condominium sales from converted rental buildings.

The history of this legislation is interesting and, I think, instructive. Aware of the stepped-up pace of conversions, the housing bill in 1979 required HUD to conduct a nationwide study on the extent and nature of condominium and cooperative conversions and their impact on the rental housing stock. The study was to be in the hands of Congress by June 30, 1980.

Without awaiting the findings of this study, the Senate included in its 1980 housing bill a separate title establishing a wide range of Federal disclosure requirements and protection of tenants of rental properties undergoing conversions.

The HUD study, of course, refutes the basic contentions on which the Senate provisions were predicated. Conversions are not a contributing factor to the current rental housing shortage, as the Senate bill contended. Conversions have only moderately impacted the rental housing stock, involving less than two percent of the rental stock nationwide, and resulting in the loss of only a little more than one-half of one percent of the available rental housing supply. Rather, the principal finding of the HUD study is that conversions are related to the increased demand for a less costly form of home ownership among a group of predominantly young, single, white professionals with above-average incomes who historically have been renters.



The HUD study examined in general the conversion phenomenon for the 37 largest Standard Metropolitan Statistical Areas and analyzed in greater detail the impact of those conversions on renters and the rental market for 12 SMSAs with high levels of conversion activity.

The principal findings are outlined below:

1. Although conversions have been accelerating, they have had only a moderate impact on the availability of rental housing. From 1970-1979, 366,000 rental units have been converted (18,000 of these were cooperative conversions), with 71 percent of the conversions occurring during 1977-1979. However, the net impact of conversions on the rental housing supply has been to reduce the number of available rentals by 18,000 units, that is, by approximately 5 units for every 100 units converted. This is because a significant percentage of converted units remain as rentals (37 percent) and because overall renter demand is reduced as a result of previous renters buying the converted units or buying elsewhere. HUD estimates that nearly 1.1 million additional units (or 4.3 percent of the currently occupied rental housing stock) will be

converted between 1980-1985, but that the rate of conversions will successively decrease each year, as the supply of rental housing suitable for conversions diminishes.

2. Conversion activity has been concentrated in a few large cities and to a surprising extent in suburban areas. Seventy-six (76) percent of all conversions occurred in the 37 largest SMSAs, with 59 percent taking place in only 12 SMSAs. However, recent trends indicate that a good deal of the activity may be shifting from the larger SMSAs to smaller metropolitan areas. Conversion activity is a larger element in suburban housing markets than has generally been believed, with 51 percent of the conversions which have occurred in the largest metropolitan areas having taken place in suburban jurisdictions.

3. Conversions are associated with metropolitan areas that have strong rental housing markets with a stock suitable for conversion, coupled with a strong demand for home ownership. For the 37 SMSAs examined by HUD, conversion activity is more likely to be associated with higher volumes of new single-family and multifamily construction, lower than average rates of rental inventory losses from

abandonment or demolition, and relatively greater population growth. While rental vacancy rates do not appear to be associated with concentrations of conversion activity, conversion activity is greater for those SMSAs where renters have higher-than-average incomes, where luxury rentals and larger buildings comprise a relatively greater proportion of the stock, and where SMSA-wide rent levels are higher than average. Higher volumes of conversion activity are similarly found in areas that have been experiencing greater growth in the number of younger households and smaller households.

4. Rent control is not a major contributing factor to conversions. The study also concludes that rent controls are not necessary conditions or leading causes of conversions, on the basis that only seven of the 37 sampled metropolitan areas include jurisdictions with some form of rent regulation. Some of the jurisdictions which have enacted rental control, such as New York, Boston, and Washington, D.C., are among those with the highest numbers of conversions. However, Chicago, which has the

highest rate of conversions of any city, has no form of rent control. It is possible, though, that fear of rent control may affect the decision to convert.

5. Conversions are providing a low-cost form of first-time home ownership for a new group of homebuyers, and do not appear to have a significantly negative impact on the tenants of the converted buildings. Forty-two (42) percent of the tenants of converted buildings remain residents. Twenty-two (22) percent of the former tenants buy their unit, while 20 percent continue to rent a unit in the converted building. (Surprisingly, an average of 37 percent of the occupants of converted buildings are renters.) Less than one-half of the tenants who do not buy did so because they couldn't afford the unit. Most (74 percent) of the residents of converted buildings who move go elsewhere to rent, although 26 percent eventually buy a housing unit elsewhere. Former residents of converted units are not primarily low income or elderly (20 percent of former residents have incomes below \$12,500 and 12 percent are elderly and have incomes below \$12,500), but are distributed fairly equally among age, income,

and occupational groups. Sixty-three (63) percent of residents of converted units are owner-occupants. Owner-occupants are mostly young, white, single professionals with higher-than-average incomes, a group who are not the typical buyers of a single-family home, but who represent 70 percent of the new demand for home ownership. A majority (56 percent) of the owners of converted units plan to purchase a single-family house or a townhouse next.

6. A large number of states have acted in response to the growth of conversion activity. Over one-third of the states have enacted statutes providing protections to tenants and buyers in converted condominiums. These protections are most likely to include the notification of intent to convert and minimum occupancy, tenant right of first refusal to purchase, and less frequently, full disclosure requirements, warranties, and purchaser's right to cancel or rescind contracts of purchase. Only in a few cases have localities enacted conversion-related statutes. Of the one-third of local communities nationwide experiencing conversions, only about one-fifth of those have conversion statutes. While it is generally true that states and municipalities which have these ordinances are associated

with high levels of conversion activity, it cannot be determined from the HUD study whether they were enacted in response to significant and widespread abuses.

In addition to the finding that most condominium sales do not involve fraudulent practices or widespread developer abuse, House members were impressed with the HUD finding that states and local governments were responding rapidly to particular problems that might be associated with the condominium conversion process.

Given these facts, the House conferees were strongly of the view that present circumstances simply didn't justify extensive Federal intervention and, accordingly, they rejected the Senate provisions relating to disclosures, warranties, first purchase options and fraudulent activities.

In the sweet spirit of compromise, the House did agree to minimal statutory provisions designed to address situations that states or local communities could not remedy or which were egregious enough to be considered contrary to public policy and therefore void.

In addition, House conferees agreed to one statement of Congressional concern regarding the impact on low and moderate income and elderly tenants of lending by Federally insured financial institutions for condominium conversions. It should be noted that the House conferees agreed to this language only after Senate acceptance of a second Sense of Congress statement emphasizing the responsibility of states and local governments to assure tenants adequate notice and opportunity to purchase units in conversion projects.

In brief, then, the only provisions affecting the conversion process to be included in the Housing and Community Development Act of 1980 are as follows:

- permitting condominium associations governed by leases entered into prior to June 4, 1975, which contain escalator clauses and appear to be unconscionable to seek relief in U.S. District or state courts. Court ordered relief may include rescission, reformation and the award of damages. This provision was specifically

- designed to remedy problems in Florida that could not be remedied by changes in state law;
- providing that any contract between the developer and the condominium association which provides for the operation, maintenance or management of the project which was entered into after October 8, 1980, while the association was controlled by the developer, and which extends for more than 3 years, may be terminated without penalty during the two-year period after developer control ends;
  - providing that any lease which meets the requirements of the unconscionable contract or self-dealing contract provisions and that required unit owners in a conversion project to reimburse the developer in a suit between the developer and the unit owners, regardless of the outcome of the suit, is against public policy and void;
  - where a tenants organization applies for a mortgage or loan insurance in connection with a conversion or purchase of a rental housing



project, the HUD Secretary shall expedite the processing of the application;

- a sense of the Congress that tenants are entitled to adequate notice of the pending conversion and should receive the first opportunity to purchase units in the converted building, and that it is the responsibility of state and local governments to provide for such legislation in a prompt manner;
- a sense of the Congress that lending by Federally insured lending institutions for the conversion of rental housing to condominiums and cooperatives should be discouraged where there are adverse impacts on the housing opportunity of the low- and moderate-income and elderly and handicapped tenants involved.

For the sake of emphasis, Mr. Chairman, the following are provisions included in the Senate bill but which were not included in the Conference agreement in any way, shape or form:

- 1) It would be unlawful for a Developer to employ fraudulent acts, including omissions of material facts, in selling or offering condominium or cooperative units to a tenant in a conversion project.
- 2) A developer would be required to provide tenants in a conversion project
  - a warranty against defects in any repair or alteration made by the developer
  - a 120-day notice to vacate
  - a 90-day offer to convey a unit
  - an architect or engineer's report on the project and the opportunity for a tenant's organization to have the project inspected by an independent engineer.
- 3) A provision rendering unenforceable the exercise of certain automatic rent increase clauses.
- 4) A specific authorization for class action suits.

I am aware, Mr. Chairman, that two of last year's conferees on the housing bill have written separately to the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Reserve Board and the Federal Home Loan Bank Board to inquire what steps will be taken to comply with the Section 603 Sense of the Congress provision regarding lending for conversions that adversely impact tenants.

What the record makes unmistakably clear is that the last thing intended by Congress was to impose any particular solution to conversion problems at the Federal level, to be implemented by the bank regulatory agencies or anyone else.

Since the amendment did not give any Federal agency enforcement authority that would be necessary to restrict conversion activity, it is evident that Congress intended only that lenders be alerted to the situation and be persuaded to move cautiously when displacement of vulnerable tenants was threatened.

In the area of displacement, as in most other aspects of the conversion process, the judgment of Congress and the Administration was that public policy should be forged at the state and local level where government responses, if needed, could be tailored to local housing and related economic conditions.

Having said this, let me quickly add that important policy decisions remain for Congress with respect to the adequate housing of our growing population. The Census Bureau tells us that U.S. households will increase in the two decades from 1970 to 1990 from 63 million to 97 million -- an increase of nearly 35 million households.

With the virulent escalation of housing costs, however, more and more millions of Americans are being priced out of the single-family detached home that has become the dream of so many. Furthermore, with cheap mortgage money a thing of the past, housing production is beginning to falter.

The reason is that the numbers just don't work. A 30-year, \$60,000 mortgage at 9% interest would require a monthly payment of \$698 per month, and 20.6% of U.S. families could afford this on an income of \$33,500.

But at an interest rate of 15%, this same 30-year, \$60,000 mortgage would require a monthly payment of \$926, or an income of \$46,700 a year -- and only 6.7% of U.S. families qualify. The 6% hike in mortgage rates has simply disqualified 14% of our families who otherwise would have been able to afford a median-priced home.

It seems apparent that U.S. housing policy is now at a crossroad, and that new directions are certain. Passbook savings earning a submarket interest rate that fails even to cover inflation are finding other and better investment opportunities than long-term mortgages. With continued high mortgage rates, different mortgage instruments and different forms of home ownership will become a permanent fixture in our housing landscape as the forces of supply and demand adjust to the new realities of the marketplace.

New condominium construction and the conversion of rental units to ownership are part of this adjustment. They offer positive benefits and they also pose problems. With more than 60% of renter-occupied housing in this country now over 30 years old and in need of modernization, conversion offers a means of restoring and maintaining housing stock that otherwise would be lost.

Displacement of low-income and elderly tenants, on the other hand, is a real and legitimate concern. In my judgment, it is one that does not lend itself to a single Federal condominium conversion policy for all localities because there isn't one national housing market, but rather hundreds, each with its own vacancy and population growth rates, rental-ownership ratios, elderly and family size mixes, land availability, income levels and budgetary conditions -- all affecting the appropriate housing policies and programs for that market.

Local communities are not only in a position to quantify the displacement problem, they often are perfectly capable of shaping a response to meet the situation.

Some local governments assist tenant-sponsored conversions, other assess taxes on converted units -- Montgomery County, for example, has adopted a 4% excise tax on rental units converted to condominiums and raised more than \$4 million the first year. These and other revenue sources can be earmarked for programs to assist the displaced.

The heart of the problem, of course, is the need to increase the desperately short supply of rental housing. Here the Federal government can play a constructive role, not by direct intervention but through the kind of indirect assistance that for decades has supported home ownership. Yet even here the local communities can and should play a crucial part in promoting rental housing. They can bring down development costs and required rents in a number of ways: by making sewers available to tracts of vacant land, by trimming unnecessary site and building requirements, by making construction loans to developers at below-market rates, and by issuing tax-exempt mortgage revenue bonds for rental housing to the extent permitted by Federal law. They also can reduce operating

costs by offering tax abatements or partial exemption from the property tax, if allowed by state law.

In summary, Mr. Chairman, I believe sound public policy will accommodate the condominium movement as a legitimate marketplace response to supply-demand forces that reflect a new set of economic realities. Adjustments are never painless and the problem of displacement is a shared responsibility of government at each level. The Congress has already accorded a preference to conversion displaces in Section 8 housing and Section 235 as well. The Community Development Block Grant program makes funds available to help displaced renters if communities wish to use their funds in this manner.

But the lead role must be assumed at the local level where condominium construction and conversion is taking place. That's where the benefits of this new form of home ownership will accrue, and that's where the displacement problem must be faced and solved.

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CONDOMINIUMS AND THE U.S. HOUSING MARKET

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Presented on Behalf of

AMERICAN INVSCO CORPORATION

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House Government Operations Committee

U.S. HOUSE OF REPRESENTATIVES  
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TABLE OF CONTENTS

<u>SECTION</u>		<u>PAGE</u>
I	INTRODUCTION, SUMMARY AND CONCLUSIONS. . . . .	1
	Purpose of Testimony . . . . .	1
	Summary and Conclusions . . . . .	2
II	STRUCTURE AND PERFORMANCE OF THE U.S. HOUSING MARKET. . . . .	16
	A. Demand for Housing . . . . .	18
	B. Supply of Housing. . . . .	23
	C. Trends in Housing Prices, 1970-1980. . . . .	33
III	MARKET FOR CONDOMINIUMS. . . . .	36
	A. Demand for Condominiums. . . . .	37
	B. Supply of Condominiums . . . . .	39
	C. Characteristics of Condominiums. . . . .	44
	D. Condominium Prices: Structure and Trend. . . . .	51
	E. Relative Cost of Renting vs. Ownership. . . . .	57
	F. Risks in Condominium Conversion. . . . .	65
IV	INFLATION AND THE HOUSING MARKET . . . . .	72
	A. Inflation and the Demand for Housing. . . . .	72
	B. Inflation and the Supply of Rental Housing . . . . .	75
	C. Inflation and the Supply of Ownership Housing. . . . .	85
V	MYTHS AND REALITY IN CONDOMINIUM CONVERSIONS. . . . .	89
	A. Alleged Contribution of Conversions to Inflation . . . . .	89
	B. Role of Profits in Condominium Conversion . . . . .	92
	C. Condominium Conversions and the Rental Stock . . . . .	95
	D. Conversions and Displacements. . . . .	96
	E. Condominium Conversions and the Mortgage Market. . . . .	103

LIST OF TABLES

<u>TABLE</u>		<u>PAGE</u>
1	Ownership of Occupied Housing Units in the United States, 1950 - 1979.....	19
2	Households by Median Income, Ownership, Rental and Marital Status - 1960, 1970 and 1976 - 1978.....	22
3	Housing Stock in the United States, 1960, 1970, and 1978.....	24-25
4	Number of Private, Single-Family, and Multi-Family Housing Starts, 1970 - 1980.....	27
5	Single-Family Homes: Sales of Existing Homes and New Starts 1970 - 1980.....	30
6	Turnover Rates: Unfurnished Apartment Buildings, 1973 - 1979.....	32
7	Relative Prices of New and Existing Single Family Houses and Rents, 1970 - 1980.....	34
8	Trend in Condominium and other Housing Units, 1970 - 1979.....	41
9	Total Private Condominium and Cooperative Housing Starts - 1974 - 1980.....	43
10	Number of Condominium and Cooperative Apartments Converted During Selected Periods 1970-1980.....	45
11	New Supply of Condominiums, 1976 - 1979.....	46
12	Survey of the Number and Average Price of New Houses and Condominiums in the United States by Number of Bedrooms, 1976 - 1980.....	47
13	Distribution of New Houses and Condominiums by Type and Number of Bedrooms, 1976 and 1980.....	48

LIST OF TABLES (Continued)

<u>TABLE</u>		<u>PAGE</u>
14	Trend in Relative Prices of New Condominiums and New Single Family Houses by Number of Bedrooms, 1976-1980. . . . .	53
15	Relative Prices of New Single Family Houses and Condominiums by Type and Number of Bedrooms, 1976-1980. . . . .	55
16	Relative Cost of Renting vs. Ownership Outlays at the Time of Conversion and First Quarter, 1981. . . . .	59-60
17	Ownership-Rental Differentials and Changes (Over Time). . . . .	61
18	Relative Cost of Renting and Ownership Outlays, Two-Bedroom Units, First Quarter, 1981. . . . .	63
19	Total Personal Consumption Expenditures of Housing and Household Operations, 1970-1980. . . . .	73
20	Changes in the Consumer Price Index for Rents and Other Components, 1970-1980. . . . .	77
21	Increases in the Consumer Price Index, Rents and Other Components in Cities Where American Invasco Has Projects, 1970-1979. . . . .	78
22	Apartment and Home Mortgage Loans Extended by Savings and Loan Associations, 1971-1979. . . . .	81
23	New Construction of Private Multi-Family Housing, 1970-1980. . . . .	82
24	New Construction of Private Buildings, 1970-1979. . . . .	83
25	Indices of Inflation and Single-Family Housing Starts, 1970-1980. . . . .	87
26	Profile of Buyers and Non-Buyers in Selected American Invasco Buildings. . . . .	99

CONDOMINIUMS AND THE U.S. HOUSING MARKETI. Introduction, Summary, and Conclusions

My name is Andrew F. Brimmer. I am President of Brimmer & Company, Inc., a Washington, D.C.-based economic and financial consulting firm. Since the summer of 1978, I have served as an Advisor to the Principals of American Invasco Corporation. Moreover, as part of the preparation for these hearings, my Company was retained to undertake an analysis of trends and developments in the U.S. housing market with special emphasis on the role of condominiums. I have drawn on the results of that work by the staff and consultants in Brimmer and Company as the basis for the statement I am presenting today.

Purpose of Testimony

The purpose of my testimony is to examine the market for condominiums within the broader context of the overall market for housing in the United States. I then discuss some of the problems and issues which have been raised by the still relatively recent phenomenon of condominium conversion.

To understand the role of condominiums, one must first appreciate the structure and operation of markets generally. Within this framework, it is possible to identify the main economic conditions and demographic trends which have influenced the demand for and supply of housing during the last decade. Next, I discuss the condominium market in some detail.

I conclude my statement with a response to several

misleading criticisms that have been made of the condominium conversion process

The main conclusions reached in this analysis are presented in each section. The highlights can be summarized briefly

#### Summary and Conclusions

To understand the role of condominiums, one must first appreciate the structure and operation of markets generally and the housing market specifically. The housing market is composed of many buyers and sellers, and it is one of the most competitive sectors of the American economy.

The behavior of the buyers is reflected in the demand for housing. Over the last three decades, the demand for housing has increased more rapidly than the growth of the economy as a whole. The expanding demand has been influenced by rising incomes and changing tastes. These have been reinforced by demographic factors such as the aging of the populace, the increasing rate of household formation, and the decreasing size of households. As a consequence, an increasing proportion of the American population has been able to own rather than rent the places in which they live. In 1950, owner-occupied homes accounted for 55 per cent of all owner-occupied dwelling units. By 1979, homeowners represented 68 per cent of all households.

The supply of housing has responded to the changing volume and character of demand. This has been done through the effective utilization of the existing housing stock, new construction, and conversion of some rental apartments to

ownership status. Thus, the total number of housing units rose faster during the 1970's than it had during the preceding decade. Furthermore, the expansion of homeownership outpaced the increase in renter-occupied dwellings.

After allowing for liquidation of some existing units, the increased supply of housing depends on the volume of new construction. The general trend in private housing starts was upward during the last three decades - despite cyclical variations mainly due to fluctuations in interest rates and availability of credit.

In contrast, there has been a sharp fall off in the construction of multi-family rental units. The cutback can be traced primarily to the effects of inflation on the rental market. Rental units accounted for over two-fifths of total private starts in the early 1970's. In 1979, they represented about one-third.

However, within the multi-family segment of the housing market, there has been a noticeable growth in condominiums. In 1973, they constituted 18.8 per cent of all multi-family starts. By 1979, new condominiums accounted for 31.4 per cent of the total.

For the typical person searching for a home, the existing housing stock is the most promising source of supply. Reflecting this fact, the ratio of sales of existing single family homes to new starts increased more than 50 per cent between 1970 and

1980. Moreover, turnover rates for rental units remained high through most of the decade.

Single family housing prices nearly tripled between 1970 and 1980, outpacing the general rate of inflation. To a considerable extent, this trend reflects the strong demand for homeownership in the face of a slowly growing supply. In contrast, rents lagged the rise in prices of single family houses, the general rate of inflation (as measured by the consumer price index), and the costs of homeownership. Rents have been constrained to some extent by the relatively low incomes of renters. But rent controls and similar measures have also contributed to the lag. So, under the inflationary pressures that have persisted over the last decade, the return to investors in rental apartments has declined. This has led to a further dampening in incentives to invest in rental properties. The problem was aggravated by the reduced availability and high cost of real estate credit.

Condominiums are an example of the housing industry's response to an accelerated demand for homeownership. The demand for this type of housing has also been supported by rising personal incomes, the trend toward smaller-sized households, and the search for hedges against inflation.

The impact of these economic and demographic trends is reflected in the profile of condominium owners. A survey conducted by the U.S. Department of Housing and Urban Development (HUD) in 1980 found that over half of the buyers were single;



over one-third were single women; one-half were 35 years of age and younger; about two-thirds held professional or management jobs, and nearly 40 per cent had annual incomes of \$30,000 or more.

The respondents in the HUD survey reported that economic considerations had influenced their decision to purchase a condominium. These included the search for a hedge against inflation, stabilization of the cost of housing, advantages of a buyer discount, the provision of a tax shelter, and the discovery of an affordable alternative to single family housing.

Thus, in response to the demand, the number of condominiums has increased more rapidly than the growth in the overall housing stock. Condominium conversions have increased even faster. Their share of the total supply of condominiums rose from about 25 per cent in 1976 to more than 40 per cent in 1979. In 1980, the fraction was 38 per cent. The reduction was due partially to the recession in the housing industry, but the spread of local regulations and other restrictions created delays which have had an adverse effect on the pace of conversions.

The growth of new condominiums and conversions is clearly traceable to their advantages over alternate types of housing. Condominiums have added to the supply of dwellings being sought by potential homeowners. This is particularly true in the case of the smaller apartments such as efficiencies and one and two bedroom units. For a potential homebuyer searching

for a small amount of space, the condominium is virtually the only thing available. This situation is roughly analogous to the automobile market. As the price of gasoline has risen sharply, the public's taste has shifted in favor of small, gas-efficient cars. In the housing market, the condominium is the counterpart of the small car.

Condominiums are also relatively cheaper than single family houses. Again, this is especially true of the smaller units. Condominiums have maintained their relative price advantage despite the more rapid rise in their prices over the last half of the 1970's.

Finally, the monthly outlays required to own a condominium may be less than the monthly costs of renting a comparable apartment. This possibility is strongly suggested by the experience of some of the owners who purchased condominiums a few years ago. When the standard benefits of homeownership are also considered, the financial outlays associated with ownership over the long run are less than the cost of renting. Thus, persons who buy are better off than those who rent.

The conversion of rental property to condominiums is a risky undertaking. Much of this risk is of the type which any businessman would expect to encounter in the market place. However, other risks are created by the rapidly changing regulatory environment encountered at the state and local level. As a businessman, the developer runs the risk that a competitor may follow him to market with another building offering units

carrying lower prices, better quality, and more convenient payment plans. The converter may encounter unanticipated rehabilitation costs. The time required to convert the building and sell the units may be stretched out. These delays increase the cost of financing. Furthermore, cash flow problems may arise from the management of the rental units until the conversions are completed.

Thus, the condominium developer plays a role comparable to that of an underwriter in the capital markets who facilitates the financing of new ventures. Underwriters bring borrowers to the market, channel new issues into the hands of long-term holders, and move on to help new clients. In a similar vein, developers employ their skills and financial resources to take a building from acquisition through conversion to a successful resale. Non-resident owners assist in this effort by assuming some of the financial risks. Owner-occupants also participate in what is essentially an investment process. They, too, are motivated not only by a quest for the housing services provided by a condominium, but also by the opportunity to build up equity through the appreciation of their property.

By inviting non-resident investors to acquire and hold units (which might be rented out), developers are tapping one segment of the financial market to help reduce the risk of having to tie up their own funds indefinitely. In that way, they can use their own skills and capital in pursuit of those activities in which they have the most advantage.

Inflation has had a noticeably different impact on the rental market compared with that for homeownership. The sustained inflationary pressures have stimulated activity on both the demand and supply sides of the ownership market. In contrast, inflation has discouraged investment in rental property. As already mentioned, rents have not kept pace with accelerating operating and financing costs. Consequently, there has been a marked decline in apartment construction and refinancing. Moreover, even the average size of new apartment buildings has declined in recent years. On the financing side, the proportion of mortgage loans made by savings and loan associations has shifted even further away from apartment construction in favor of home lending opportunities. Under these circumstances, landlords have been more willing to sell rental apartments, particularly in the face of a strong demand for ownership housing.

Inflation has especially stimulated the growth of condominiums. Because new condominiums are constructed like any other multi-family unit, builders can take advantage on the cost side of economies of scale with respect to land, utilities, mechanized construction, and pooled managerial and other skills. Condominium conversions offer further advantages which keep the average cost of converting below that of new construction. Thus, the general impact of inflation on the demand for condominiums and the ability to offset partially negative effects of inflation on the supply side have made condominiums, especially conversions, the most widely affordable form of ownership housing available today.

Despite the sound economic basis and rationale for condominium growth, several myths persist regarding the condominium conversion process. It has been charged that conversions cause inflation. It is argued that converters drive up market prices, realize exorbitant profits, displace needy persons (requiring them to incur higher rental and moving costs), and cause buyers to carry housing costs substantially higher than the rents previously paid. This charge, however, confuses the nature and causes of inflation. Inflation is a rise in the general price level, not simply a variation in the price of a specific good. A change in the market value of a single good (such as a condominium) would alter its price in relation to other products - some of which compete with the first. So, while price ratios will be modified, the overall price level will not have been raised. Thus, the change in condominium prices does not cause inflation.

Changes in relative prices in the different segments of the housing market reflect the inter-play of supply and demand. In the rental market, rising costs in the face of lagging rents have dampened the supply of new multi-family housing. However, the introduction of condominiums has helped to offset some of the inflationary pressures in the homeowner-ship segment of the market. By adding to the supply of housing, condominiums have made it possible for people to

own their homes who otherwise would have bought single family houses or remained renters. So, condominiums have helped to lower demand and price pressures in the markets for single-family housing and rental units.

Finally, in a competitive market, no one seller or buyer can determine the market price. The condominium market (along with the housing market generally) is competitive. Consequently, no one developer is able to determine the market price of either newly constructed or converted condominiums. So, changes in the market prices of condominiums are determined by the interplay of demand and supply forces - not by the actions of one converter.

The charge that profits cause inflation confuses the cause and the effect. Profits from condominium conversions arise partly as a result of inflation. Inflation contributes to a strong demand for condominiums in the face of a limited supply. This excess demand suggests that a profit might be realized - although there is no guarantee. In fact, the condominium market is especially vulnerable to cycles in the general economy which heighten the risk and uncertainty associated with conversion activity. Therefore, the level of profits generated in the conversion process must be evaluated in terms of the risks and uncertainty inherent in the business. Because of these factors, there is no

independent yardstick which would enable one to assert that the profits of the converter are "too high."

It has also been argued that real estate speculators rush in to buy up units in newly converted buildings, hold them off the market to force up prices, and thus realize excessive profits. This perception is also false. It is a throw-back to the old idea of "engrossing." This notion held that a speculator could scoop up a product (typically an agricultural commodity) and keep it off the market until demand lifted the price high enough for him to realize a profit. The condominium market does not operate in this fashion. No single non-resident owner can control the supply of such housing units in a particular community, so he could not set an arbitrary price when he is ready to sell. Other suppliers of similar properties would undercut his efforts if he were to try. Therefore, his opportunity to reap excessive profits is strictly limited.

Some critics have asserted that condominium conversions erode the supply of rental housing. This charge is not supported by the evidence. It also fails to capture the broader contributions of conversions to the supply of housing. In 1980, the U.S. Department of Housing and Urban Development published a study which addressed this issue. The conclusion reached stated that the net effect of the conversion of condominiums has been to reduce the supply of rental housing by 5 per cent

and to increase the supply of ownership housing by 3 per cent. The problems in the rental market do not arise from the conversion of rental property to condominiums. In fact, the conversion activity itself is an outgrowth of the deterioration of the rental market under adverse inflationary conditions. Restrictions on condominium conversion, therefore, will not resolve the socioeconomic problems in the rental market.

Conversions are also said to displace many disadvantaged persons. The issue of displacement is complex. It is also difficult both to define the term conceptually and to measure it statistically. But in most conversions, a substantial majority of residents do purchase their units. Moreover, all non-buyers are not displaced. Some of them remain in the converted building as renters. Others move for reasons having nothing to do with being displaced. This pattern of behavior is not unusual, given the higher turnover rates of renters as compared to owners. In addition, the conversion process does not abrogate the existing contractual arrangement a tenant has with his landlord.

Many persons confuse the issue of displacement with the question of non-affordability. An analysis of tenants and buyers in several American Invesco projects indicates that (where the conversion process followed a normal course)



a significant proportion of the residents could afford to purchase their units. Furthermore, a high percentage did buy. Some of the persons who appeared unable to afford their units on the basis of their annual incomes also decided to purchase rather than remain renters. Among the tenants in the four American Invaco projects studied, between two and 23 per cent of household occupants bought units - although on the basis of income they did not appear to be good prospects. The affordability criterion often ignores sources of income other than wages and salary.

But, aside from the question of displacement, some tenants may be affected adversely by a conversion. In recognition of this possibility, many converters do provide assistance to those groups of tenants who may be particularly burdened by the conversion process. American Invaco has been a leader in extending this kind of assistance. Elderly and handicapped tenants are given the option to remain in the building as renters. Relocation aid may also be given. But whatever the form, this assistance imposes financial costs on the developer. So beyond these private efforts, it is the responsibility of public policy to provide housing for the needy. The burden of assisting these persons should not fall solely on the shoulders of the converter.

A final criticism of the conversion process is that it drains off funds from the mortgage market. This is a distorted

perception of the current nature and functioning of the mortgage market in this country.

The charge has its roots in an earlier period when the Federal Government did try to corral cheap funds to be channeled into single-family housing. Today, however, the mortgage market is going through a major restructuring, and it must function within a highly competitive environment. As a result, savings and loan institutions (who remain the principal mortgage lenders) must compete for funds like all other financial institutions. Their own costs of money have risen drastically, and they have had to lift the rates they charge on real estate mortgages. But borrowers who are able and willing to meet the terms set in the competitive market are able to obtain loans.

Moreover, mortgage credit extended to individual purchasers of converted units may well replace the debt outstanding on the building prior to its sale to the converter. Although the volume of new mortgages may exceed the debt which was the liability of the owner of the rental property, the volume is also likely to be less than the amount of funds required to underwrite the purchase of single-family houses if there were no condominiums. This is because the average price of condominiums is less than the average price of single-family houses.

In conclusion, the market for condominiums is an integral part of the overall housing market in this country. It is a highly competitive market, and it is making a major contribution to the expansion of homeownership. This is especially true for many persons (particularly young people) who otherwise probably could not buy a home.

## II. Structure and Performance of the U.S. Housing Market

To understand the operation of the housing market in the United States, it is first necessary to have a perspective on the nature and role of "markets" in our economy. In general, a market is composed of buyers (or prospective buyers) and sellers of a particular good or service. The performance of the market is influenced substantially by the number of buyers and sellers in the market. Where there are numerous buyers and sellers, the quantity of a good or service demanded, the quantity supplied, and the price at which transactions occur are set by competition. Consequently, no one buyer or seller can affect the market price significantly.

In the housing market, the demand for housing services is composed of those who choose to rent plus those who prefer to buy their own homes. The demand for housing is driven by a combination of economic and demographic factors. The economic influences include the level of employment and incomes as well as the prices of different types of housing units. Changes in demographic factors (such as age structure, rate of household formation, labor force participation rates - especially of women) also affect housing demand. These are reinforced by shifts in tastes and preferences.

On the opposite side of the market, there is a continuum of suppliers. At any given time, the main source is the vacant stock of rental units. The next most important

source is the stream of traditional single-family homes offered in the re-sale market. The existing stock of housing units is supplemented by new construction undertaken by builders or developers. In recent years, an increasing share of the dwellings available for sale has been composed of units converted from rental to ownership status.

The inter-play of demand and supply - as well as the way in which housing prices are set - is examined in the remainder of this section.

#### A. Demand for Housing

The demand for housing in the United States has been rising faster than the growth of the economy as a whole for the last 3 1/2 decades. For example, consumer spending for housing (including the imputed rental value of owner-occupied dwellings but excluding the cost of household operation) represented 10.7 per cent of total personal consumption expenditures in 1945. Over the following years, the proportion rose steadily: 1950, 11.3 per cent; 1960, 14.8 per cent; 1970, 15.2 per cent; 1979, 16.0 per cent; and 1980, 16.3 per cent.

The strong demand for housing has led an increasing proportion of the American population to own rather than rent the places in which they live. The figures in Table 1 show the trend in the distribution of housing units between owner-occupied and renter-occupied in 1950, 1960, 1970, 1977, and 1979. Several features stand out in these data. It should be noted that in 1979 (the latest year for which detailed statistics are available) 67.6 per cent of the 75 million housing units in the country were occupied by the persons who owned them. Renters were living in 32.4 per cent of the units. In 1950, owner-occupied homes accounted for 55.0 per cent of the total.

The trend toward ownership varied substantially over the three decades covered in the statistics. For instance, between 1950 and 1960, more than 90 per cent of the increase

Table 1  
Ownership of Occupied Housing Units  
in the United States, 1950-1979  
(Number in Thousands)

Period Year	Total Occupied		Owner-Occupied		Renter-Occupied	
	Number	Per Cent	Number	Per Cent	Number	Per Cent
1950	42,826	100.0	23,560	55.0	19,266	45.0
1960	53,024	100.0	32,797	61.9	20,227	38.1
1970	63,450	100.0	39,885	62.9	23,565	37.1
1977	75,280	100.0	48,765	64.8	26,515	35.2
1979	77,330	100.0	52,284	67.6	25,046	32.4

Source: Compiled by Brimmer & Company on the basis of data from the U.S. Bureau of the Census.

in the housing stock occurred in owner-occupied structures. The fraction eased off to 68 per cent during the 1960-79 period, but it climbed to 89 per cent between 1970 and 1979. These figures indicate that the number of owner occupied housing units rose at an average annual rate 3.4 per cent between 1950 and 1960; 2.0 per cent between 1960 and 1970, and by 2.2 per cent between 1970 and 1977.

The demand for housing is also influenced substantially by changes in the size and composition of American households. For example, the United States is becoming an older society, and the impact on housing demand is becoming quite noticeable. In 1960, the median age in this country was 29.4 years. It rose to 30.2 years in 1980. According to U.S. Census Bureau forecasts, the median age is expected to be 35.0 in the year 2000.

The rising average age of the population reflects the maturation of the "baby boom" which followed the end of World War II. The people born in the period 1945-1955 are now between 25 and 35 years old. From the mid-1960's through the mid-1970's, those currently at the upper end of this age range created the strong demand for rental apartments registered at that time. The 25 to 35 age range is also the primary age for the purchase of a first home. Thus, the ranks of the earlier baby boom were showing up increasingly in the homeownership market as the 1970's ended. The trend can be expected to continue well into the 1980's.



The demand for housing is also affected by a number of other demographic factors. Among these is the rate of household formation. The pace at which new households are being formed is increasing. Between 1960 and 1965, the number of new households averaged 928,000 annually. The figure climbed to an average of 1,596,000 between 1975 and 1980. This tendency is strengthened by changing life styles and the growing number of young persons able to afford their own homes. It is also partly related to the increase in the labor force participation rate for women.

The decreasing average size of households and the expanding number of single-person households are additional factors which boost the demand for housing. For example, as shown in Table 2, there were 7,075 thousand single-person households in 1960, and they represented 13.3 per cent of the total. By 1970, the number had climbed to 11,151 thousand and accounted for 17.6 per cent of all households. In 1978, the 17,158 thousand single-person households reported constituted 22.2 per cent of the total. The smaller average size of households contributes to the demand for smaller housing units requiring less upkeep. The average household size declined from 3.1 persons in 1970 to 2.6 persons in 1980. An increasing proportion of households consists of only one or two members without dependent children. Moreover, a growing percentage of single adults and senior citizens is choosing to live alone.

Table 2

Households<sup>1/</sup> by Median Income, Ownership, Rental and Marital Status  
1960, 1970 and 1976-1978  
(Numbers in Thousands)

Year	<u>All Households</u>		<u>Home Owners</u>		<u>Renters</u>		<u>Single Person Households</u>			
	<u>Number</u>	<u>Median Income</u>	<u>Number</u>	<u>Median Income</u>	<u>Number</u>	<u>Median Income</u>	<u>Total Number</u>	<u>Median Income</u>	<u>Home Owners</u>	<u>Renters</u>
1960	53,024	N.A.	32,797	55,900	20,227	4,100	7,073	N.A.	2,886	4,189
1970	63,446	N.A.	39,886	9,700	23,560	6,300	11,151	N.A.	4,762	6,389
1976	74,005	N.A.	47,904	14,400	26,101	8,100	14,838	N.A.	6,278	8,560
1977	75,280	N.A.	48,765	16,000	26,515	8,800	15,796	N.A.	6,677	9,119
1978	77,167	N.A.	50,283	16,800	26,884	9,300	17,158	N.A.	7,575	9,583

N.A. Not Available

<sup>1/</sup> Households are interpreted as all occupied housing units.

Source: Calculations by Brimmer and Compnay on the basis of data from the U.S. Bureau of the Census, Annual Housing Survey.

### 3. Supply of Housing

The supply of housing, with only a modest time lag, has responded to the changing volume and character of the demand outlined above. This response has taken the form of effective utilization of the existing housing stock, construction of new units, and the conversion of a number of rental apartments to ownership status.

A number of characteristics of the housing inventory in the United States is sketched in Table 3. In 1978, the nation had 84.6 million housing units. It should be noted that the total number of dwelling units rose much faster during the 1970's (at an average annual rate of 2.6 per cent than was the case in the 1960's (1.7 per cent). The average annual growth rates for owner-occupied units were 2.0 per cent in 1960-70 and 2.9 per cent in 1970-78. The corresponding figures for rental units were 1.5 per cent and 1.6 per cent, respectively.

In 1977, almost 83 million (or 97.9 per cent) of the housing units were available on a year-round basis. Just over 5 1/2 million (about 6.8 per cent) of these units were vacant. Around 600 thousand of the vacant units were for sale and 1.5 million were for rent.

Just over two-thirds (55.5 million) of the year-round housing stock consisted of one-unit structures. The proportion had decreased from 77 per cent in 1960 and 69 per cent in 1970. These figures represented average annual growth

Table 3

Housing Stock in the United States, 1960, 1970, and 1978  
(Numbers in Millions)

Item	1960	1970	1978	Average Annual Percentage Change	
				1960-70	1970-78
All Housing Units	58.3	68.7	84.6	1.7	2.6
Year-round units, total	56.6	67.7	82.8	1.8	2.5
Owner-Occupied	32.8	39.9	50.3	2.0	2.9
Per cent of year-round	58.0	58.9	60.7	-	-
Renter-occupied	20.2	23.6	26.9	1.5	1.6
Vacant: year-round units	3.6	4.3	5.7	1.8	3.6
Per cent of year-round	6.3	6.3	6.8	-	-
For sale only	0.5	0.5	0.6	-	2.3
For rent	1.5	1.7	1.5	1.2	1.5
Other	1.1	2.1	3.5	6.7	6.6
Units in structure					
1 unit	43.8	46.8	55.5	0.6	2.1
Per cent of year-round units	77.3	69.1	67.0	-	-
2-4 units	7.6	9.0	10.8	1.7	2.3
5 or more units	6.2	9.8	12.9	4.7	3.3
Mobile home or trailer	0.8	2.1	3.7	10.2	7.3
Cooperatives and condominiums <sup>1/</sup>	N.A.	N.A.	1.3	-	-
Cooperatives <sup>2/</sup>	N.A.	N.A.	0.3	-	-
Condominiums <sup>2/</sup>	N.A.	N.A.	0.9	-	-

1/ Includes vacant units for sale.  
2/ Owner.

N.A.

Table 3

Housing Stock in the United States, 1960, 1970, and 1978 (Continued)  
(Numbers in Millions)

Item	1960	1970	1978	Average Annual Percentage Change	
				1960-70	1970-77
Year structure built					
April, 1970 or later	X	X	16.4	-	-
1965 to March, 1970	X	8.9	9.4	-	0.7
1960-1964	X	8.1	8.1	-	-
1950-1959	16.0	14.5	13.8	-1.0	-0.5
1949 or earlier	42.3	36.2	35.1	-1.5	-0.5
Persons per unit (median)					
Owner-occupied	3.1	3.0	2.7	-0.4	-1.5
Renter-occupied	2.6	2.3	2.0	-1.3	-2.0

X Not applicable

Source: Calculations by Brimmer & Company on the basis of data from the U.S. Bureau of the Census.

rates of 0.6 per cent in 1960-70 and 2.1 per cent in 1970-78. In contrast, 2 to 4 unit structures rose from 7.6 million in 1960 to 9.0 million in 1970 and 10.8 million in 1978. The annual growth rates were 1.7 per cent and 2.3 per cent, respectively. The number of housing units in structures containing 5 or more units increased from 6.2 million in 1960 to 9.8 million in 1970 to 12.9 million in 1978. The corresponding annual growth rates were 4.7 per cent and 3.5 per cent respectively.

During any specific period of time, the housing stock will change because some of the older units are razed or destroyed by fire or other accidents while a number of new units are built. Both of these trends can be traced in Table 3. For example, between 1970 and 1977, the number of structures which had been built prior to 1950 decreased by 1.1 million. But over the same period, 16.4 million units were added. The net effect was to reduce slightly the average age of the housing stock.

After one allows for the liquidation of some of the existing units, the growth of the supply of housing depends on the volume of new construction. The latter is approximated by the number of private housing starts undertaken last year. The number and composition of starts over the last decade are shown in Table 4.

The highly cyclical nature of new homebuilding activity stands out sharply. For instance, between 1970 and 1972

Table 4

Number of Private, Single-Family, and Multi-Family Housing Starts  
1970-1980

(Number in Thousands)

Year	Private Housing Starts: Total	Single Family Housing Starts	Multi-Family Housing Starts <sup>1/</sup>				Per Cent of Total Starts	Condominiums as Per Cent of Multi-Family
			Total	Rentals	Condominiums	Other		
1970	1,434	813	621	N.A.	N.A.	-	43.3	N.A.
1971	2,052	1,151	901	N.A.	N.A.	-	43.9	N.A.
1972	2,356	1,309	1,047	N.A.	N.A.	-	44.4	N.A.
1973	2,045	1,132	913	741	172	-	44.6	18.8
1974	1,338	888	450	320	130	-	33.6	28.9
1975	1,161	892	269	224	45	-	23.2	16.7
1976	1,536	1,162	374	310	64	-	24.3	17.1
1977	1,987	1,451	536	445	91	-	27.0	17.0
1978	2,020	1,433	587	469	114	4	29.1	19.4
1979	1,745	1,194	551	378	173	17	31.6	31.4
1980p	1,291	852	441	N.A.	N.A.	N.A.	34.2	N.A.

p - Preliminary

N.A. - Not available

1/ 2 or more units

Source: Compiled by Brimmer & Company on the basis of data from the U.S. Bureau of the Census.

(partly reflecting declining interest rates and the increased availability of mortgage credit), the number of housing starts rose by 64 per cent. But, from 1972 to 1975 (in the face of rising interest rates and severe credit restraint), the volume of starts shrank by 51 per cent. A very sharp rebound occurred between 1975 and 1978 as starts expanded by 74 per cent. Again, the main driving forces were relatively low interest rates and more readily available mortgage loans. The opposite conditions prevailed from 1978 through 1980, and housing starts dropped by 36 per cent.

One should also note the sharp variation in the number of multi-family housing units started over the last decade. In the early 1970's, such units (built mainly for rent) accounted for well over two-fifths of total private starts. But in 1975, the ratio shrank to less than one-quarter. Since then an up-trend has been evident, but the proportion was still about one-third. The sharp fall-off in the construction of multi-family units can be traced partially to the reduced availability and high cost of real estate credit. But some of the shrinkage undoubtedly can be attributed to the lag in rents in the face of rising costs of building and maintaining rental apartments.

But, for the typical person searching for a home, the existing housing stock is the most promising source of supply.



The magnitude of the latter is approximated by the number of homes sold and the number of apartments rented during a particular period of time. A rough indication of these transactions is provided by the figures in Table 5 and 6.

Table 5 shows sales of existing single-family homes and the number of new starts in the same category. The ratio of sales to starts is also calculated. The comparison highlights the fact that sales of existing units greatly exceed the number of new units built. The sales ratio ranged from 1.72 to 3.10 and averaged 2.36. When it fell below average, it mainly reflected the fall-off in the volume of new housing starts.

Table 6 shows the turnover rates for apartment buildings during the period 1973 through 1979. In general, the tenant flow-through is greatest in garden apartment developments where roughly one-half to two-fifths of the units change over each year. In low-rise apartment buildings, the turnover rates seem to average between one-third and one-half. In contrast, only about one-quarter of the units in high-rise buildings change hands each year.

In conclusion, the overall U.S. housing market is complex and multi-dimensional. Yet, it is also highly competitive. There are many buyers, but there are also many sellers. Consumers of housing services who want to rent can have their

Table 5

Single-Family Homes:  
Sales of Existing Homes and New Starts  
1970-1980  
(Number in Thousands)

Year	Sales of Existing Single-Family Homes	New Starts of Single-Family Homes	Ratio of Sales to Start
1970	1,612	813	1.98
1971	2,018	1,151	1.75
1972	2,252	1,309	1.72
1973	2,334	1,132	2.06
1974	2,272	888	2.56
1975	2,452	892	2.75
1976	3,002	1,162	2.58
1977	3,547	1,451	2.44
1978	3,863	1,433	2.70
1979	3,701	1,194	3.10
1980	2,881	852	3.38

Source: Calculations by Brimmer & Company. Figures on sales of existing homes are from the National Association of Realtors. Data on new housing starts are from the U.S. Bureau of the Census.

requirements met readily. Those who want to buy their homes - and thus accumulate some wealth in addition to enjoying housing services - can also have their needs satisfied. These characteristics should be kept in mind when the role of condominiums in the overall housing market is examined below.

Table 6

Turnover Rates: 1/  
 Unfurnished Apartment Buildings, 1973 - 1979  
 (Per Cent)

<u>Building Type</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Elevator	26.0	25.5	29.1	25.1	26.6	26.9	25.6
Low-rise 12-24 Units	36.2	35.0	33.1	37.3	39.3	49.2	43.2
Low-rise 25 & Over	45.6	45.6	42.7	46.8	46.1	49.3	46.6
Garden	74.6	49.5	51.7	53.3	56.2	65.0	58.4

1/ Number of new tenants divided by the number of apartments.

Source: Compiled by Brimmer & Company on the basis of data from the Institute of Real Estate Management, Income/Expense Analysis: Apartments, 1978 and 1980 editions.

C. Trends in Housing Prices, 1970-1980

Housing proved to be a fairly good hedge against inflation over the last decade. In general, the prices of both new and existing houses rose faster than the consumer price index during this period. However, this was not true in the case of rents.

Single Family Houses

Housing prices nearly tripled between 1970 and 1980 as indicated in Table 7. The median price of new single family houses rose from \$23,400 in 1970 to \$64,600 in 1980. This was an increase of 176 per cent, equal to an average annual rate of 10.7 per cent. The median price of existing single family houses increased from \$23,000 in 1970 to \$62,200 in 1980, representing an average annual rise of 10.5 per cent. Similarly, the average price of existing single family housing climbed from \$25,700 in 1970 to \$72,800 in 1978, equal to an annual advance of 6.2 per cent. Through 1978, the number of existing single family houses sold rose faster (at an average annual rate of 10.4 per cent). The actual level of sales increased from 1.62 million units in 1970 to 3.55 million units in 1978.

These figures clearly reflected the strong demand for housing generated by demographic factors and rising incomes. But in addition, they are also a mirror of the general rate of inflation.

The level of sales declined in 1979, and an even larger decrease occurred in 1980. The latter is a reflection of the

Table 7—Relative Prices of New and Existing Single Family Houses and Rents

(1970-1980)

Year	Median Prices of New Single Family Homes Sold (Dollars)	Median Prices of Existing Single-Family Homes Sold (Dollars)	Average Price of Existing Single-Family Homes Sold (Dollars)	Number of Existing Single-Family Homes Sold (000 units)	Consumer Price Index 1/ 1967=100	Homeownership Components of CPI 1967=100	Median Monthly Rent for Rental Units (Dollars)	Residential Rent Index of CPI
1970	23,400	23,000	25,700	1,612	113.5	128.5	108	110.1
1971	25,200	24,800	28,000	2,018	117.4	133.7	N.A.	115.2
1972	27,600	26,700	30,100	2,252	120.9	140.1	N.A.	119.2
1973	32,500	28,900	32,900	2,334	129.9	146.7	135	124.3
1974	35,900	32,000	35,800	2,272	143.5	163.2	143	130.6
1975	39,000	35,300	39,000	2,452	158.4	181.7	156	137.3
1976	44,200	38,100	42,200	3,002	165.2	191.7	167	144.7
1977	48,800	42,900	47,900	3,547	174.7	204.9	184	153.5
1978	55,700	48,700	55,500	3,865	187.1	227.2	209	164.0
1979	62,900	55,700	64,200	3,701	208.4	262.4	N.A.	176.0
1980	64,600	62,200	72,800	2,881	246.8	314.0	N.A.	191.6
Annual Average Percentage Changes								
1970-1978	11.5	9.9	10.1	11.6	6.3	7.4	N.A.	5.2
1970-1979	11.6	10.3	10.9	9.7	7.0	8.3	N.A.	5.4
1970-1980	10.7	10.5	11.0	6.0	8.1	9.3	N.A.	5.7

1/ All Urban Consumers - U.S. City Average

Sources: Compiled by Brimmer &amp; Company.

Median Prices of New Single Family Homes Sold: Bureau of the Census;

Median, Average and Number of Existing Single Family Homes Sold: National Association of Realtors;

CPI, Homeownership and Residential Rent Components of CPI: U.S. Bureau of Labor Statistics;

Median Monthly Rent: U.S. Department of Housing and Urban Development, Annual Housing Survey.

- 35 -

impact of the recession reinforced by high interest rates and the reduced availability of credit.

Housing prices increased faster than the general rate of inflation between 1970 and 1980. Both the median and average prices of single family houses outpaced the CPI. Further, the rise in housing prices over the 1970's is also reflected in changes in the homeownership component<sup>1/</sup> of the CPI. The homeownership index increased from 128.5 in 1970 to 314.0 in 1980; over the same period, the CPI rose from 113.5 in 1970 to 246.8 in 1980. These changes represented average annual growth rates of 9.4 per cent and 8.1 per cent, respectively.

#### Rental Units

Rents did not keep pace with new and existing housing prices - nor with the CPI between 1970 and 1980. The median monthly rent increased from \$108.00 in 1970 to \$200.00 in 1978 (the last year for which data are available). This was an annual advance of 8.0 per cent. In contrast, median prices of new single family houses increased 11.5 per cent annually during 1970-78, and median prices of existing single family houses rose 9.9 per cent per year.

Similarly, the residential rent component of the CPI increased only 5.7 per cent at an average annual rate (from 110.0 in 1970 to 191.6 in 1980). The homeownership index increased 9.3 per cent, and the overall CPI increased 8.1 per cent.

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<sup>1/</sup> The homeownership index is composed of a weighted average of home purchase prices, mortgage interest payments, taxes, insurance, maintenance and repairs.

### III. Market For Condominiums

Condominiums, whether newly constructed or converted from rental property, are a form of ownership housing. As such, they must be assessed in the context of the market for all types of new or existing ownership housing, - including single family houses, townhouses, and cooperatives. The homeowners segment of the market, in turn, is part of the overall housing market, which includes rental units as well.

The operation of each of the housing sub-markets is influenced by general economic and demographic trends and conditions. These factors have had a variable impact on the different housing sub-markets and they have altered traditional housing patterns.

Condominiums (including conversions) reflect the housing industry's response to an accelerated demand for homeownership. This demand has been fueled by both demographic factors, changes in consumer preferences, and higher rates of inflation in the economy. Condominiums and conversions provide an affordable alternative form of homeownership for a growing segment of the population which otherwise would not be able to buy a home.

The advent of condominiums is a mirror of the normal and healthy responses of a competitive housing market to changing conditions and needs. The performance of the market for condominiums is examined in the section.



#### A. Demand for Condominiums

The demand for condominiums is driven by the same type of considerations which have stimulated the demand for home-ownership generally. These include rising personal incomes, the trend toward smaller-sized households and the search for hedges against inflation. But beyond these general trends, the demand for condominiums has been fostered by a number of elements which have had a particularly noticeable impact in this segment of the housing market. Some of these elements are rooted in demographic changes while others are economic in origin.

Among the demographic factors is a fundamental change in taste and life styles among young people. An increasing number of such persons are choosing to live alone, and this decision has multiplied greatly the number of one-person households. For example, in 1979, there were 17.8 million single-person households, representing 22.5 per cent of the total. In 1960, the proportion was 13.1 per cent; it climbed to 17.7 per cent in 1970 and to 20.9 per cent in 1976.

An increasing proportion of these single-person households consists of women who remain in the labor market for a longer period of time than was the case in the past. Moreover, many of these women - along with many young men - have above-average education. The latter has served as the basis for considerable occupational upgrading into the professional and managerial ranks. This occupational progress has

brought higher incomes and increased ability to carry the financial responsibility of homeownership. In a similar vein, the economic progress made by blacks and other minority groups has expanded the demand for condominium units.

The impact of these demographic elements on the demand side of the market shows up clearly in the results of a study of condominium conversions conducted by the U.S. Department of Housing and Urban Development (HUD) in 1980. The Department found that 57 per cent of the owner-occupied condominium households identified in the survey were single persons, compared with only 14 per cent in the country as a whole. Single women accounted for 36 per cent of the owners, and single men made up 21 per cent.

The survey results also demonstrated the strong appeal of condominiums to young adults. One-half of the owners were 35 years of age or younger; one-fifth were over 55, and only 9 per cent were over 65. In the nation at large, 22 per cent of homeowners were over 65 years old.

Almost two-thirds of condominium owners held professional or managerial jobs. This proportion was about 2 1/2 times the ratio for the entire labor force. Reflecting this occupational profile, 39 per cent of the owners of converted units had annual incomes of \$30,000 or more. Moreover, because units converted from rental to ownership are frequently less expensive than newly built apartments or single family homes, the recorded level of income could generate a stronger demand for the former

than the latter.

Finally, the HUD study found that blacks owned about 10 per cent of the converted units. In contrast, blacks represent only 7 per cent of the homeowners in the nation. Blacks constitute about 11 per cent of the total population; so the conversion of rental units has enabled them to acquire a proportionate share of at least one type of residential property.

The demand for condominiums is influenced substantially by economic considerations. For example, two-thirds of the condominium owners interviewed for the HUD study cited economic factors as the principal reason for purchasing their units. These considerations included (1) a search for a hedge against inflation; (2) to stabilize the cost of housing; (3) to take advantage of a buyer discount; (4) to provide a tax shelter or investment outlet, or (5) to find an alternative to single family housing.

#### B. Supply of Condominiums

The supply of condominiums has expanded in response to the increasing demand described above. Moreover, conversions of apartments from rental to ownership status have accounted for a rising share of the new supply.

Condominiums were introduced in the early 1960's as a form of homeownership. Until the 1970's, they served mainly as vacation or second homes. But, in the last five or six

years, condominiums have been offered almost entirely as principal dwellings.

The availability of condominiums as a component of the nation's overall supply of housing can be seen in Table 8'. In 1975, there were 621 thousand condominium units in the housing stock. Of this total 507 thousand were occupied by owners, and 114 thousand were vacant and mainly for sale. This latter figure (equal to almost one-fifth of the condominiums) was the legacy of the over-building which occurred in 1973-74. Also in 1975, condominiums represented 1.1 per cent of all owner-occupied housing units in the country.

Over the last few years, the number of condominiums has increased much more rapidly than the housing stock generally. By 1978, the nation's housing inventory included 913 thousand condominium units; 865 thousand were owner-occupied, and 48 thousand were vacant. The occupied units were equal to 1.7 per cent of all owner-occupied dwellings. We estimate that the number of condominium units climbed to 1.196 million in 1979. About 1.1 million were owner-occupied, representing 2.3 per cent of all owner-occupied units in the country. We also estimate that another 280 thousand condominiums were added to the housing stock in 1980-raising the level to around 1.60 million.

These figures represent an average annual growth rate of 2.8 per cent for all owner-occupied housing units between 1975 and 1979. For condominiums, an annual growth

Table 8

Trend in Condominiums and Other Housing Units  
1970 - 1979

Category	1970	1975	1976	1977	1978	1979
All Housing Units	68,672	79,087	80,881	82,420	84,618	N.A.
All Occupied Housing	63,443	72,523	74,005	75,280	77,167	77,330
Owner-Occupied	39,886	46,867	47,904	48,765	50,283	52,284 (b)
Condominiums	N.A.	507	634	665	865	1,130 (b)
Cooperatives	N.A.	361	405	344	348	398 (b)
Sub-Total	N.A.	868	1,039	1,009	1,213	1,528 (b)
Other Owner Occupied	N.A.	45,999	46,865	47,756	49,070	50,756 (b)
Renter-Occupied	23,560	25,656	26,101	26,515	26,885	N.A.
Vacants <sup>1/</sup>	5,227	6,564	6,876	7,140	7,452	N.A.
For Sale	N.A.	N.A.	617	596	624	N.A.
Condominiums	N.A.	114	75	58	48	66
Cooperatives	N.A.	5	5	6	3	3
Sub-Total	N.A.	119	80	64	51	69
For Rent	N.A.	N.A.	1,544	1,532	1,545	N.A.
Other	N.A.	N.A.	4,716	5,012	5,283	N.A.
Condominiums (occupied & vacant)	N.A.	621	709	723	913	1,196
Cooperatives (occupied & vacant)	N.A.	366	410	350	351	401
Total condominiums & cooperatives	N.A.	987	1,119	1,073	1,264	1,597
Condominiums as a Per Cent of Owner-Occupied Units	N.A.	1.1	1.3	1.4	1.7	2.3

<sup>1/</sup> Year round and seasonal.

N.A. Not Available

b - Estimated by Brimmer &amp; Company.

Source: U.S. Department of Housing and Urban Development and the Bureau of the Census, Annual Housing Surveys, 1975-1979, and Brimmer &amp; Company estimates.

rate of 12.8 per cent was recorded over the same period.

The supply of condominiums can be augmented by two sources - i.e., new construction and conversions of rental units to ownership. The figures in Table 9 show the trends in new private condominium starts during the years 1974 through 1980. The trends are also shown for total private starts and cooperatives.

It will be noted that the number of new condominiums started rose from 45 thousand in 1975 to 173 thousand in 1979. We have estimated that the level remained at about 175 thousand in 1980 - despite the sharp decline in home-building. Thus, condominiums represented 3.9 per cent of total private starts in 1975; they rose to 8.9 per cent in 1979 - and to an estimated 13.6 per cent last year.

The construction of condominiums is put into even sharper focus by a comparison with multi-family units rather than with all private starts. As shown in Table 4, condominiums accounted for well over one-quarter of all multi-family units begun in 1979. In 1973, they represented 18.8 per cent of all multi-family starts. The fraction jumped to 28.9 per cent in 1974 - a gain traceable in large part to the stimulus provided by real estate investment trusts (REIT'S). During the severe recession of 1974-75, the REIT'S encountered serious financial strains, and their ability to finance new condominiums was drastically eroded. Overall housing demand dropped. Under these circumstances, the

Table 9.—Total Private Condominium and Cooperative Housing Starts

1974 - 1980  
(Thousands of Units)

Category	1974	1975	1976	1977	1978	1979	1980
Total Private Starts	1,338	1,160	1,538	1,987	2,020	1,745	1,291
Condominium & Cooperative Starts	165	59	83	118	156	221	200 <sup>(b)</sup>
Per Cent of Total Private Starts	12.3	5.1	5.4	5.9	7.7	12.7	15.5
Condominium Starts <sup>1/</sup>	130	45	64	91	114	173	175 <sup>(b)</sup>
Per Cent of Total Private Starts	9.7	3.9	4.1	4.6	5.6	9.9	13.6
Cooperative Starts	35	14	19	27	42	48	25 <sup>(b)</sup>
Per Cent of Total Private Starts	2.6	1.2	1.3	1.3	2.1	2.8	1.9

<sup>1/</sup> Starts intended for use as condominiums.

(b) Estimated by Brimmer & Company.

Source: Compiled by Brimmer & Company from data provided by the Bureau of the Census.

number of new condominium units started fell from 172,000 in 1973 to 43,000 in 1976 - a cutback of 74 per cent. By 1979 new condominium starts had returned to 31.4 per cent of total multi-family starts. The proportion probably rose further last year.

The second source of additional condominiums originates in the conversion of rental apartments to ownership status. The trend of such conversions over the last decade can be traced in Table 10. It will be noted that, in the 1970-75 period, the number of conversions to condominiums and cooperatives totaled 85,746, an annual average of 14,291. There were 82,540 condominiums which accounted for the overwhelming proportion (97.4 per cent) of the total. The spurt in conversions began in 1976 when 19,452 apartments became condominiums. The figure then rose rapidly to reach 132,000 in 1979. Over these four years, condominium conversions averaged 67,365. It has been estimated that 100,000 conversions took place in 1980.

The part played by conversions in the total supply of condominiums is indicated in Table 11, which combines new construction and conversions. In 1976, conversions were equal to about one-quarter of the total. By 1979, the fraction had climbed steadily to more than two-fifths. But, under the general slow-down in housing activity in 1980, the number of conversions may have decreased by one-quarter to 100,000 equal to 38 per cent of the total.

#### C. Characteristics of Condominiums

As stressed above, condominiums meet the housing needs of several specific segments of the American public. This



Table 10

Number of Condominium and Cooperative Apartments  
Converted During Selected Periods  
1970-1980

<u>Aggregates</u>	<u>Total Number of Units</u>	<u>Condominiums</u>		<u>Cooperatives</u>	
		<u>Number of Units</u>	<u>Per Cent of Total Number of Units</u>	<u>Number of Units</u>	<u>Per Cent of Total Number of Units</u>
1970-1975	85,746	82,540	97.4	3,206	2.6
1976-1979	286,072	269,460	94.2	16,612	5.8
1970-1979	366,583	347,000	94.7	19,513	5.3
<u>Years</u>					
1976	19,976	19,452	95.6	524	4.4
1977	45,527	43,546	92.3	1,981	7.7
1978	80,334	74,462	94.1	5,872	5.9
1979	140,235 <sup>(b)</sup>	132,000 <sup>(a)</sup>	94.1	8,235 <sup>(b)</sup>	5.9
1980	105,260 <sup>(b)</sup>	100,000 <sup>(a)</sup>	95.0	5,260 <sup>(a)</sup>	5.0

a - Estimate by Advance Mortgage Corporation.

b - Estimated by Brimmer & Company.

Source: Computations by Brimmer & Company from data contained in U.S. Department of Housing & Urban Development, The Conversion of Rental & Housing of Condominiums and Cooperatives, June, 1980.

Table 11  
New Supply of Condominiums, 1976-1979

Period	Total Number	New Construction	Conversions	
			Number	Per Cent of Total
1976	83,452	64,000	19,452	23.3
1977	134,546	91,000	43,546	32.4
1978	188,462	114,000	74,462	39.5
1979 <sup>1/</sup>	305,000	173,000	132,000	43.3
1980	265,000	165,000	100,000	37.7

<sup>1/</sup> Estimated by Advance Mortgage Corporation.

Source: Calculations by Brimmer & Company. Data from Tables 4 and 8.

is especially true of those persons who require smaller units in the lower price range. The ways in which different elements in the demand and supply of condominiums fit together are difficult to measure. There are no overall statistics which would permit one to examine in detail the numerous dimensions of this segment of the housing market. However, one industry group (the National Association of Home Builders - NAHB) does collect data on sales of new single-family houses and condominiums. The figures come from NAHB's homeowners warranty insurance program. Some of the basic data from the NAHB survey for the years 1976 through 1980 are presented in Table 12. The units covered are classified by type and number of bedrooms. In 1976, the survey picked up 40,866 sales of new 1-3 bedroom dwellings, including 1,002 condominiums. In 1980, there were 98,247 such units reported, among which were 5,932 condominiums. So, the survey captured about 2.7 per cent and 7.6 per cent of the new private housing starts in the two years, respectively. The proportion of newly built condominiums reflected in the survey was 1.6 per cent in 1976 and 3.8 per cent in 1980. Consequently, the survey data are broadly representative of the national market for newly built condominiums.

To bring the picture into sharper focus, the number of units sold in two years (1976 and 1980) is reproduced in Table 13. The distribution of units by type and number of bedrooms is also shown.

A particularly striking profile stands out in these figures. For a potential homeowner searching for a small

Survey of the Number and Average Price of New Houses and Condominiums in the United States by Number of Bedrooms  
1976 - 1980

New Houses and Condominiums	1979			1977			1978			1979			1980			Percentage Change	
	Number of Units	Per Cent of Total	Average Price	Number of Units	Per Cent of Total	Average Price	Number of Units	Per Cent of Total	Average Price	Number of Units	Per Cent of Total	Average Price	Number of Units	Per Cent of Total	Average Price	1976-1979	1979-1980
<b>One Bedroom</b>																	
Single-Family - Detached	74	28.9	35,972	169	42.9	36,379	297	40.0	43,328	240	33.9	33,453	225	29.6	36,532	204.0	37.1
Condominiums	316	45.3	33,388	65	21.6	36,567	49	9.5	42,044	106	9.4	47,712	107	16.3	52,744	61.2	37.9
Condominiums, Low Rise	63	24.8	24,102	121	30.7	31,902	218	41.0	34,475	616	34.9	36,876	674	50.7	43,003	949.8	99.4
Condominiums, High Rise	2	1.2	37,800	37	9.8	37,800	15	2.9	48,569	172	11.0	43,837	33	3.4	37,172	300.8	37.6
TOTAL	390	100.0	37,480	394	100.0	37,480	397	100.0	43,402	346	100.0	43,301	332	100.0	49,736	248.8	57.7
<b>Two Bedrooms</b>																	
Single-Family - Detached	4,373	72.6	35,100	7,235	70.2	32,770	10,733	71.5	44,163	13,319	64.6	49,726	12,053	60.8	53,817	165.5	31.3
Condominiums	1,220	19.5	40,335	2,015	19.5	44,606	2,136	14.2	49,652	3,099	14.9	57,100	3,456	10.3	61,295	195.2	31.2
Condominiums, Low Rise	432	7.2	35,462	975	9.4	44,404	1,707	11.4	47,478	3,459	16.0	55,940	3,692	10.6	59,899	716.6	53.1
Condominiums, High Rise	47	0.7	51,725	86	0.9	49,743	430	2.9	45,287	762	3.7	62,664	439	2.3	79,720	934.0	32.6
TOTAL	5,593	100.0	38,313	9,250	100.0	39,716	12,869	100.0	47,855	16,418	100.0	61,826	15,492	100.0	71,114	214.3	36.7
<b>Three Bedrooms</b>																	
Single-Family - Detached	30,765	89.6	42,407	51,373	90.4	44,814	77,005	92.7	51,264	94,154	92.2	59,916	70,143	90.7	62,232	127.9	49.3
Condominiums	3,090	9.1	44,955	4,694	8.2	46,900	5,104	6.1	54,070	6,491	6.8	61,542	8,001	7.9	70,664	95.6	37.3
Condominiums, Low Rise	430	1.3	45,019	748	1.4	51,350	894	1.1	61,914	1,176	1.2	73,911	1,099	1.3	89,387	134.6	79.0
Condominiums, High Rise	2	0.0	55,515	7	0.0	55,515	11	0.1	61,914	8	0.0	67,629	12	0.0	67,629	134.6	79.0
TOTAL	33,855	100.0	43,422	56,067	100.0	45,714	82,109	100.0	57,334	100,645	100.0	67,537	78,154	100.0	79,901	147.7	38.6
<b>Four Bedrooms</b>																	
Single-Family-Detached	39,412	86.7	41,490	50,799	87.0	45,066	69,745	89.3	52,166	107,741	91.8	59,668	62,421	83.9	61,043	121.7	49.2
Condominiums	4,432	10.5	51,350	8,268	19.0	45,069	7,271	7.3	51,879	9,806	8.9	59,668	9,494	10.1	66,941	121.2	34.3
Condominiums, Low Rise	917	2.1	50,148	1,846	4.5	45,069	2,471	2.5	51,879	3,406	3.1	59,668	3,773	3.3	66,941	121.2	34.3
Condominiums, High Rise	31	0.1	52,294	110	0.2	47,008	356	0.4	48,031	1,399	1.2	61,284	1,721	1.9	71,296	104.8	44.6
TOTAL	43,844	100.0	43,833	59,067	100.0	45,753	77,066	100.0	57,115	117,547	100.0	61,744	71,915	100.0	68,287	146.6	36.6

Source: Compilations by WEHNER & COMPANY from data provided by the National Association of Home Builders.

Table 13

Distribution of New Houses and Condominiums  
By Type and Number of Bedrooms, 1976 and 1980

Category	1976		1980	
	Number	Per Cent	Number	Per Cent
<u>One Bedroom</u>				
Single-Family-detached	74	28.9	225	19.6
Townhouses	116	45.3	187	16.3
Condominiums	66	25.8	737	64.1
Sub-Total	256	100.0	1,149	100.0
<u>Two Bedrooms</u>				
Single-Family-detached	4,573	72.6	12,053	60.8
Townhouses	1,228	19.5	3,626	18.3
Condominiums	499	7.9	4,131	20.9
Sub-Totals	6,300	100.0	19,810	100.0
<u>Three Bedrooms</u>				
Single-Family-detached	30,765	89.7	70,143	90.7
Townhouses	3,108	9.0	6,081	7.9
Condominiums	437	1.3	1,064	1.4
Sub-Totals	34,310	100.0	77,288	100.0
<u>One to Three Bedrooms</u>				
Single-Family-detached	35,412	86.6	82,421	83.9
Townhouses	4,452	10.9	9,894	10.1
Condominiums	1,002	2.5	5,932	6.0
Total	40,866	100.0	98,247	100.0

Source: Calculations by Brimmer & Company. Data from Table 12.

homestead, the condominium is virtually the only thing available. For example, in 1980, condominiums accounted for almost two-thirds of the new one-bedroom units reported in the NAHB survey. In 1976, the proportion was one-quarter. Single-family-detached houses represented 29 per cent of the one-bedroom units in 1976 and 20 per cent four years later. Townhouses accounted for just under half of these small units in 1976, but their share had fallen to 16 per cent last year. Thus, condominiums had come to dominate that part of the demand-supply spectrum where the buyer needs a fairly small amount of space.

As one moves up the size scale, the appeal of condominiums diminishes somewhat, but it has also increased over the last few years. For instance, in 1976, condominiums accounted for only 8 per cent of the two-bedroom dwellings sold. But by 1980, the proportion was up to 21 per cent. Virtually all of the improvement in the condominium position was at the expense of single-family-detached houses whose share fell from 73 per cent to 61 per cent. On the other hand, in the case of three-bedroom units, condominiums represented just over 1.0 per cent of the total in each of the two years. This segment of the market is dominated by single-family detached houses.

The pattern of demand and supply described here is roughly analogous to that which prevails in the automobile market. For many years, - when gasoline was cheap - the public demanded

a full-sized car complete with many extras. In response, automobile manufacturers produced millions of such vehicles each year. But more recently, as the price of gasoline has risen sharply, the public's taste has shifted in favor of small, gas - efficient automobiles. For a variety of reasons, U.S. manufacturers were slow to respond to the change in taste, and imports captured a significant share of the domestic market. As a result, American producers are scrambling to re-tool in order to supply a larger proportion of the demand in the years ahead.

In the housing market, the condominium can be compared with the small car. It is not only the lower price but the greater availability of condominiums to meet the needs of the person requiring a limited amount of space which accounts for their growing popularity.

#### D. Condominium Prices: Structure and Trend

There are no official government or industry statistics describing the trend in condominium prices nationally. However, the National Association of Home Builders (NAHB) obtains information on the number of sales and prices of new condominiums (and new single family houses) through its homeowners warranty insurance programs. The analysis in this section is based substantially on the NAHB national statistics.

The sales reported in the NAHB data, as reflected in Table 12, are classified by type of dwelling. The classes are single family detached, townhouses, low rise condominiums, and high rise condominiums. Average prices are reported for three sizes of units. These are one bedroom, two bedrooms, and three bedrooms.<sup>1/</sup> In 1976, the average price of a new condominium was \$39,979. By 1980, it was \$62,891. The increase amounted to 57.3 per cent or an average annual rate of 12.0 per cent.

The prices of new condominiums increased faster than the general rate of inflation, since the CPI increased 49 per cent, equal to an average annual rate of 10.6 per cent between 1976 and 1980. However, condominium prices rose at a rate comparable to the advance in the homeownership component of the CPI, which climbed at an average annual rate of 13.1 per cent over the same period.

To a considerable extent, the rapid appreciation in the prices of new condominiums reflects the strong demand for such units in the face of a still limited supply.

<sup>1/</sup> Average prices are also reported for 4 and 5 bedroom units, but the number of condominiums is so small they have not been included in this report.



Relative Prices of Condominiums and Single Family Homes

The NAHB data permit a comparison between the prices of new condominiums and prices of new single family houses.

As further indicated in Table 14, in 1976 the average price of new single family houses was \$41,665. In 1980, it was \$62,391. Thus, the average price of this type of house increased 49.7 per cent (or at an average annual rate of 10.6 per cent) over this four-year period.

One can also see in Table 14 that the average price of the one bedroom condominium has been consistently lower than that for the one bedroom single family house. This is true despite the fact that the price of the new condominiums rose more rapidly. In 1976, the average price of the one bedroom condominium was \$24,594 compared with \$45,394 for the single family dwelling. So, the former was about 72 per cent of the latter. By 1980, the average price of the one bedroom condominium was up to \$46,253, and the typical one bedroom single family house sold for \$54,813. These figures represented average annual increases of 17.1 per cent and 12.4 per cent, respectively. Nevertheless, the average price of the new, one bedroom condominium was only 84 per cent of the price at which the typical, small single family house was sold.

The price differential between the one bedroom condominium and one bedroom single family house takes on greater significance when the increased availability of condominiums is considered. For example, there were 737 one bedroom condominiums in the NAHB sample in 1980. This figure was nearly

Table 14

Trend in Relative Prices of New Condominiums and  
New Single Family Houses By Number of Bedrooms  
1976-1980  
(Prices in Dollars)

Types of Housing	1976	1977	1978	1979	1980	Percentage Changes 1976-1980	
						Total	Average Annual Rate
<b>One Bedroom</b>							
1/ Condominium Average Price	\$24,394	\$32,441	\$33,818	\$39,144	\$46,253	88.1	17.1
Number of Units	66	140	261	749	737	1016.7	84.0
2/ Single Family Average Price	34,394	36,575	43,081	51,826	54,813	59.4	12.4
Number of Units	190	254	256	374	412	116.8	21.1
<b>Two Bedroom</b>							
1/ Condominium Average Price	37,175	44,756	47,053	57,154	61,021	64.1	13.2
Number of Units	499	1,061	2,137	4,221	4,131	727.9	68.0
2/ Single Family Average Price	36,208	35,304	45,074	51,116	55,570	53.5	11.3
Number of Units	6,801	9,270	12,871	16,408	15,679	130.5	23.3
<b>Three Bedroom</b>							
1/ Condominium Average Price	45,316	53,390	61,923	74,911	81,677	80.2	15.9
Number of Units	437	773	955	1,256	1,064	143.4	24.9
2/ Single Family Average Price	42,641	46,821	53,310	60,024	63,835	49.7	10.6
Number of Units	33,873	56,059	82,909	100,843	76,224	125.0	18.4
<b>Total: One-Three Bedroom</b>							
Condominium Average Price	39,977	47,263	50,258	58,569	62,891	57.3	12.0
Number of Units	1,002	1,974	3,553	6,226	5,932	492.0	55.2
Single Family 2/Average Price	41,665	45,154	52,179	58,755	62,391	49.7	10.6
Number of Units	40,864	65,583	138,861	111,514	92,315	125.9	22.5

1/ Multifamily-low rise and high rise

2/ Attached and detached

Source: Computations by Brimmer and Company from data provided by National Association of Home Builders.

double the number of 412 one bedroom single family houses in that same year.

The relative price advantage of condominiums diminishes as the size of the units increases. Moreover, the character of the typical condominium also changes. Consequently, the two and three bedroom condominiums reported in the NAHB survey were more expensive than two and three bedroom single family houses. In 1980, the average price of the two bedroom condominiums was \$61,021, or 110 per cent of the \$55,370 recorded for a two bedroom single family house. For the three bedroom condominium, the average price was \$81,677 compared with \$63,835 for the three bedroom single family house.

In Table 15, the average prices of the various types of housing units are expressed as index numbers, where the average price for a particular size group is taken as the base. Thus, in 1976, the average price of condominiums was 95 per cent of the average for all three types of units combined. The relative price of condominiums, however, varied by size of units. The price of the typical one bedroom condominium was 77 per cent of the average of all one bedroom units taken as a class. On the other hand, the two and three bedroom condominiums were a little higher (2 per cent and 6 per cent, respectively) than the average price for the larger dwellings grouped together.

By 1980, the average price of the condominium was virtually the same as the average price of all three types of housing units combined. Yet, the average price of the one bedroom condominium remained about 93 per cent of the average price of

Table 15

Relative Prices of New Single Family Houses and Condominiums  
By Type and Number of Bedrooms 1976 and 1980  
(Prices in Dollars)

Category	1976		1980	
	Average Price	Index To Average Total Price	Average Price	Index To Average Total Price
<u>One Bedroom</u>				
Single-Family-Detached	35,972	1.12	56,332	1.14
Townhouses	33,388	1.04	52,744	1.07
Condominiums	24,892	.77	46,253	.93
Sub-Total	31,868	1.00	49,323	1.00
<u>Two Bedrooms</u>				
Single-Family-Detached	35,100	.96	53,817	.94
Townhouses	40,335	1.11	61,395	1.08
Condominiums	37,174	1.02	61,020	1.09
Sub-Total	36,285	1.00	56,706	1.00
<u>Three Bedroom</u>				
Single-Family-Detached	42,407	.99	63,242	.98
Townhouses	44,955	1.05	70,684	1.10
Condominiums	43,316	1.06	81,677	1.27
Sub-Total	42,675	1.00	64,082	1.00
<u>One to Three Bedrooms</u>				
Single-Family-Detached	41,450	.99	61,845	.98
Townhouses	43,379	1.04	66,941	1.07
Condominiums	39,949	.95	62,891	1.01
TOTAL	41,622	1.00	62,422	1.00

Sources: Calculations by Brimmer & Company. Data from Table 12 .

one bedroom units generally - although the gap narrowed somewhat. Also, by 1980, the average price of the two and three bedroom condominiums was 7 per cent and 27 per cent, respectively, above that for all of the larger units combined.

#### E. Relative Cost of Renting vs. Ownership

To obtain an indication of the relative cost of renting an apartment versus owning a condominium, a study was undertaken by American Invesco Corporation comparing the two types of occupancy. Four buildings were selected on the basis of two criteria: (1) the conversion had occurred sufficiently long ago to provide several years of operating history, and (2) the buildings represent a reasonable geographic spread. Within each building, four types of units were identified. These were studio, one bedroom, two bedrooms, and three bedrooms. So, altogether 15 units were included in the study.<sup>1/</sup> Each unit was considered to be typical of units of the same size, and they were all in the middle of the price range. In each case, a single unit served as the basis for the cost analysis.

Monthly rents at the time of conversion are defined as the actual monthly amounts charged for each unit as indicated in the records of the management company. Current monthly rents are the amounts charged third parties who were renting the same or a similar unit from an investor during the first quarter of 1981.

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<sup>1/</sup> At Village Lake, no studio-type unit was selected.

Ownership outlays on a monthly basis reflect the resident price, with an 80 per cent mortgage at interest rates actually paid at the time of the purchase, plus the real estate taxes and condominium fee. No adjustment was made for tax benefits, equity build up, or opportunity cost of down payments.

The comparison of the outlays for owning versus the cost of renting was made on the basis of two time periods: (1) the time of conversion (which varied from 1973 to 1978) and (2) the first quarter of 1981.

The basic data collected on monthly expenditures for each condominium unit are summarized in Table 16. The differential between ownership outlays and the costs of renting is also shown. In Table 17, the ownership-rental differentials for each unit and the percentage changes in outlays from time of conversion to the first quarter of 1981 are presented.

Several features of these results should be noted. First, at the time of conversion, outlays for ownership were above the costs of renting in 12 of the 15 units. Moreover, the excess monthly outlays were fairly large. The average was 44 per cent, but in three of the units the margin was more than 80 per cent. In the three units where ownership outlays were below the costs of renting,

Table 16

Relative Cost of Renting vs. Ownership Outlays At The Time of Conversion and First Quarter, 1981  
(Amounts in Dollars)

Mortgage Rate Per Unit	Unit Type Spec'd	City	Date of Conversion	Monthly Outlays at Conversion			Monthly Outlays, First Quarter, 1981		
				Rent \$/ Month	Ownership \$/ Month	Rent Less Ownership Outlays	Rent \$/ Month	Ownership \$/ Month	Rent Less Ownership Outlays
8.25	2400 Lehigh Pines On Switt	Chicago, IL	August, 1973	215	195	20	350	278	72
8.25	Royal Ambassador	Chicago, IL	April, 1975	211	206	5	430	225	225
9.75	Village Lake	Pt. Lauderdale, Florida	January, 1978	272	459	- 187	450	543	- 93
10.50		St. Petersburg, Florida	June, 1978	-	-	-	-	-	-
979	1 Bedroom								
	2400 Lehigh			200	282	- 82	500	611	- 111
	Pines On Switt			313	439	- 126	600	556	- 44
	Royal Ambassador			350	457	- 107	550	732	- 182
	Village Lake			192	217	- 25	275	241	- 34
	2 Bedroom								
	2400 Lehigh			410	444	- 34	800	644	- 156
	Pines On Switt			566	518	- 152	950	833	- 117
	Royal Ambassador			508	921	- 413	700	1,095	- 395
	Village Lake			247	299	- 52	330	329	- 1
	3 Bedroom								
	2400 Lehigh			545	713	- 168	1,000	991	- 9
	Pines On Switt			595	753	- 158	1,100	957	- 143
	Royal Ambassador			572	1,047	- 475	750	1,235	- 483
	Village Lake			300	304	- 4	420	421	- 1



Relative Cost of Renting vs. Ownership Outlays At The Time of Conversion and First Quarter, 1961 (Continued)  
(Amounts in Dollars)

Footnotes:

- 1/ In each building, data were gathered for a single unit of each type which was considered typical of units in that class. Selected units were located in the middle of each building. Hence, the prices of the units are in the middle of the price range.
- 2/ Actual rent charged for each unit as indicated in records of management company.
- 3/ Ownership outlays are based on resident price with 80 per cent mortgage over 30 years at a fixed interest rate paid by buyer at time of conversion. Ownership outlays include monthly principal and interest plus monthly tax and monthly assessment. No allowance is made for tax benefits or opportunity cost of down payment.
- 4/ Rents charged for the same or similar apartment in the same building which is owned by an investor and rented out to a third party.

Table 17  
Ownership-Rental Differentials and Changes  
Over Time

Building and Type of Unit	Ownership-Rental Differential (Per Cent)		Percentage Change: (From Conversion to First Quarter, 1981)	
	Time of Conversion	First Quarter, 1981	Rental	Ownership
<u>Studio</u>				
2400 Lakeview	-9.3	-20.6	62.8	47.3
Plaza On Dewitt	-2.4	-30.0	113.2	9.2
Royal Ambassador	68.7	20.7	63.4	16.3
<u>1-Bedroom</u>				
2,400 Lakeview	-2.1	-17.8	73.6	43.7
Plaza On Dewitt	40.3	- 7.3	91.7	26.7
Royal Ambassador	82.0	36.7	37.1	16.1
Village Lake	13.0	-12.4	43.2	11.1
<u>2-Bedroom</u>				
2400 Lakeview	8.7	-19.5	95.1	44.4
Plaza On Dewitt	41.5	-31.3	59.6	26.1
Royal Ambassador	81.3	35.0	37.8	17.8
Village Lake	21.1	- 6.0	41.7	10.0
<u>3-Bedroom</u>				
2400 Lakeview	30.8	-0.9	83.5	39.0
Plaza On Dewitt	33.3	-13.0	84.9	20.7
Royal Ambassador	83.0	67.1	31.1	19.7
Village Lake	28.1	0.5	40.0	9.9

Source: Calculations by Brimmer & Company; data from Table 16.

the differential was only 4.6 per cent. Two of these were studio units.

However, by the first quarter of this year, the situation had been substantially reversed. Monthly outlays for ownership were below rental costs in 10 of the 15 units. In two of the buildings (2400 Lakeview and Plaza On Dewitt), ownership outlays were less than rental costs for each of the four unit sizes. The differential averaged 17.9 per cent. Moreover, in the five cases where rental costs in 1981 were still below monthly ownership outlays, the spread had narrowed considerably from what it was at the time of conversion.

The figures describing changes in monthly expenditures since the time of conversion tell the same story. In every instance, rents rose more sharply than expenditures by owners. The increases averaged 65.4 per cent. Monthly outlays by the average owner-occupant rose by only 24.3 per cent.

The general conclusion which emerged from the foregoing analysis is clear: the costs of renting (which tend to be less than the financial requirements of ownership at the outset) typically rise faster - and to a higher level - than the latter with the passage of time. Thus, persons who buy condominiums generally do better financially than those who rent.

Table 18  
 Relative Cost of Renting and Ownership Outlays,  
 Two-Bedroom Units, First Quarter, 1981  
 (Assuming 15 Per Cent Interest Rate)  
 (Dollars)

<u>Building</u>	<u>Current Rent</u>	<u>Ownership Outlays (15 per cent interest rate)</u>
2400 Lakeview	\$ 800	618
Plaza On Dewitt	950	711
Royal Ambassador	700	1,210
Village Lake	350	374

Source: Calculated by Brimmer & Company.  
 Basic data are from Table 16.

Each of the converted condominiums studied here occurred when mortgage interest rates were lower than they are today. To get an impression of the impact of higher rates on expenditures by condominium owners, such outlays were recalculated for the two bedroom units using a 15 per cent mortgage rate. The results are shown in Table 18. In the buildings converted in 1973 and 1975, monthly expenditures by owners in the first quarter of 1981 remained below rental payments - despite the burden imposed by higher mortgage payments. The reverse was the case in the two buildings converted in 1978. In the three years since then, rents have not risen fast enough to overtake the increase in ownership outlays that would be associated with a jump of 50 per cent in mortgage interest rates.

The above analysis did not incorporate many of the standard benefits of homeownership. Condominiums are a form of ownership housing, and buyers are entitled to these benefits as well. Such owners are able to deduct interest payments on mortgages and real estate taxes from their taxable income. Equity is built up as the price of the condominium appreciates.

Moreover, the down payment made on the purchase of the condominium could have been invested in alternate ways which would have yielded some return. Consequently,

the down payment is really an opportunity cost running opposite to benefits.

If these benefits and opportunity costs of condominium ownership were taken into consideration, the advantage of ownership would be further enhanced. The margin favoring ownership over renting of American Invesco units would be widened even further. In fact, it is likely that when all benefits are considered, the financial requirements of owning are less than the costs of renting in all of the four buildings.

F. Risks in Condominium Conversion

In undertaking to convert rental units to condominiums, developers take on a great deal of risk. Much of this is the type of market risk which any businessmen would expect to encounter, but some of it emerges from the rapidly changing regulatory environment encountered at the state and local level.

When a developer acquires an existing building with the aim of converting it to condominiums, he must necessarily have a good idea about the nature and size of the specific market for the units. While he can reasonably expect a significant fraction of the existing tenants to purchase units, he will undoubtedly have to rely on buyers from outside. Careful market research prior to

acquisition of the building can help to minimize errors in the estimation of demand. Yet, an element of risk still remains, and final sales may fall considerably short of expectations.

Moreover, the developer also runs the risk that another converter may bring to market a building with units directly competitive with those he is offering. The competition may be expressed in the form of lower prices, better quality, more convenient purchase terms, or some combination of these factors. But, in any case, the appearance of an alternative supply of units would most likely have an adverse impact on the original developer's business plans.

The conversion process may entail other surprises which raise costs and increase the developer's risks. For example, the project may involve unanticipated rehabilitation costs (including the cost of correcting unforeseen structural defects). For a variety of reasons (including new regulatory procedures), the time required to convert the building and market the units may be stretched considerably beyond the period initially estimated. Such delays would undoubtedly increase the cost of financing the project - since most developers have to borrow sizable amounts to carry on their business.

Furthermore, in the typical case, a developer is faced with the prospect of managing a number of rental units while an effort is made to market the converted apartments. As a result, problems arising from a possible negative cash flow from rental operations may have serious and decisive consequences for the success of the venture. Since the best units are most likely to be sold first, the converter may be placed in an unenviable situation; he may be left holding many units which cannot be readily marketed nor rented in the interim to suitable tenants.

It must be emphasized that the developer operates in an extremely fluid setting. This means that the conversion period cannot be estimated with accuracy. For instance, in the case of American Invesco Corporation, it took from 14 to 33 months to achieve the sales target of 95 per cent of the units in buildings that had achieved that benchmark by November 30, 1979. For about 90 per cent of the projects, it took a minimum of 15 months to reach this goal.

Conversion delays may cause costs to escalate very rapidly. Since carrying costs are heavy, sales delays may entail a "second best" solution of costly changes in marketing strategy. Because revenue and expenses may diverge markedly from projections,



risk-taking in condominium conversion requires the developer to have substantial contingency reserves. He must also have back-up managerial and technical skills on which he can draw.

To a considerable degree, the developer is also an underwriter of the risks inherent in the conversion process. The role he plays is comparable to that performed by underwriters in capital markets who facilitate the financing of new ventures. Such underwriters are normally investment bankers who use their capital as a safety net for corporations and state and local governments seeking to float securities. The goal of such investment bankers is to bring borrowers to the market, channel the new issues into the hands of long-term holders, and move on to help other clients. They do not want to tie up their own capital to hold the underwritten issues indefinitely.

In a similar vein, developers want to employ their skills and financial resources to take a building from acquisition through conversion to a successful re-sale. They do not want to hold unsold units for an extended period of time.

For this reason, converters must be able to turn to another group of risk-takers who are willing to hold the

units until they are sold to owner-occupants. These are the non-residents who purchase units which are then rented to existing or new tenants. These non-resident owners are really investors who are prepared to risk their funds in collaboration with the developer. They may be attracted to the investment opportunity by a variety of considerations - including the hope of appreciation in the value of their property. How long they may choose to remain as investors will depend on their own tastes and preferences.

In a fundamental sense, owner-occupants who purchase condominiums are also participating in the investment process. Presumably they are interested primarily in the housing services to be derived from the units as they live in them. However, they are undoubtedly also motivated to some degree by an expectation of capital gains as the value of their property appreciates over time. Their decision probably is predicated on a long-term commitment similar to that which influences the purchase of a single-family home. But the period during which they expect to hold the property may vary greatly depending on changing personal circumstances and alternative opportunities which may emerge in the market place.

In fact, as one reflects on the respective sales of developers, investors, and owner-occupants, it is evident that they are faced with a continuum of holding periods. These may overlap to some extent, but each class of participants in the conversion process is likely to find the most comfort at a different point on the spectrum. Thus, developers are more likely to be short-term holders while owner-occupants are likely to look to the long-run. Investors or non-resident owners will most probably be found between these extremes.

This perspective on participants in the conversion process parallels that found with respect to holders of U.S. Government securities. The overall market is highly segmented, so the U.S. Treasury tailors the type and maturity of its debt issues to attract funds from a variety of investors. These obligations range from 3-months Treasury bills to 2 to 3 years notes to bonds with maturities in excess of 20 years. Purchasers of these different issues have their own investment needs. By recognizing them - and by shaping its offerings accordingly, the U.S. Government is able to manage its own debt quite efficiently.

By inviting investors to acquire and hold units which might be rented out, developers are tapping one segment of the financial market to help reduce the risk

of having to tie up their own funds indefinitely. In that way, they can use their own skills and capital in pursuit of those activities in which they have the most advantage.

#### IV. Inflation and the Housing Market

Rising inflationary pressures have had seriously adverse effects in the housing market - as in other sectors of the economy. Inflation has persuaded many members of the public to favor physical assets over securities and other financial holdings. This has been especially true of those assets whose relative value is expected to increase more rapidly than the general price level. Investment in housing has held out the promise of offering just such a hedge against inflation. This has been one of the major factors underlying the strong demand for housing in recent years.

But inflation has also had a devastating impact on the supply of rental housing. It has reduced the incentive to invest in residential rental property, and it has undermined the construction of multi-family rental apartments.

These and other effects of inflation on the housing market are discussed in this section.

##### A. Inflation and the Demand for Housing

Inflation has had two effects on the demand for housing. First, because of inflation, households must spend a larger fraction of their income on housing. Thus, consumer expenditures on housing services have increased as a share of total personal consumption expenditures as is reflected in Table 19. In 1970, the fraction was 15.1

Table 19

Total Personal Consumption Expenditures and  
Expenditures on Housing and Household Operations  
(1970 - 1980)  
(Amounts in Billions of Dollars)

Year	Total Personal Consumption Expenditures	Housing	Household Operations	Per cent of Total Housing	Per cent of Total Household Operations
1970	\$ 621.7	\$ 93.9	\$ 37.7	15.1	6.1
1971	672.2	102.7	41.0	15.3	6.1
1972	737.1	112.5	45.2	15.3	6.1
1973	812.0	123.8	49.6	15.2	6.1
1974	888.1	137.4	55.2	15.5	6.2
1975	976.4	149.8	63.3	15.3	6.5
1976	1,084.3	166.5	71.6	15.4	6.6
1977	1,205.5	186.8	80.8	15.5	6.7
1978	1,348.7	213.1	89.5	15.8	6.6
1979	1,510.9	241.9	98.7	16.0	6.5
1980p	1,670.1	272.4	111.7	16.3	6.7

p - preliminary

Source: Computations by Brimmer & Company from data contained in  
Economic Report of the President, January, 1981, p. 248.

per cent. By 1980, it was 16.3 per cent. Similarly, the ratio of expenditures on household operations has also increased. In the 1970-1973 period, the share was stable at 6.1 per cent; but in the 1974-1980 period, it averaged 6.5 per cent.

Second, inflation naturally favors the acquisition of real assets whose value is expected to increase more rapidly than the consumer price index. Thus, it has stimulated the demand for physical assets in preference to financial holdings. In addition, the inexorable rise in prices has caused real estate investors to shift away from rental housing where returns have not kept pace with inflation - partly because of escalating costs and lagging rents. Inflation also provides an incentive for homeownership financed with fixed-rate mortgages, which means that the real burden of debt service would be expected to fall over time.

In general, inflation has stimulated the demand for homeownership (as opposed to renting) as a hedge against inflation. This demand arises from two inter-related motivations: the quest for housing services and the search for investment opportunities. As a result, the rapid growth in housing prices incorporates not only the imputed rental value of housing services but also a return on the invested capital - i.e., the down payment and accumulated equity. As evidence, the

home-ownership component of the CPI, measuring both the imputed value of the housing service and the return on the investment, has increased faster than the general rate of inflation. Between 1970 and 1980, the price index for homeownership increased from 128.5 to 314.0. This change was the equivalent of an average annual rate of 9.3 per cent. In comparison, the CPI increased at an average annual rate of 8.1 per cent - climbing from 113.5 in 1970 to 246.8 in 1980.

B. Inflation and the Supply of Rental Housing

Inflation has altered adversely the position of the rental market relative to that for ownership housing. It has also reduced the incentive to invest in rental property thus contributing to a decline in the rate of new construction of multi-family apartment houses.

Inflation has adversely affected the rental market in two ways - in absolute and relative terms. In absolute terms, it has contributed to escalating rental operating costs such as fuel and utilities, maintenance, and administration. Meanwhile, rents have been constrained by a number of factors - including lower incomes of renters and the existence of rent control or similar regulatory restraints in some cities. The median income of renter units was \$9,300 in 1978 or only about 55 per cent of the \$16,810 median reported by homeowners.



Rents have not kept pace with increases in various components of operating costs (utilities, administration, maintenance). Further, rents and net operating income have lagged the Consumer Price Index (CPI) and many of its major components - such as homeownership, household operations, fuel and utilities, transportation, food, and services. For example, as indicated in Table 20, rents increased at an annual rate of 3.7 per cent between 1970 and 1980. Fuel and utilities costs rose 10.0 per cent, and other rental costs were up 7.7 per cent, and the CPI rose by 8.1 per cent. Rents have also lagged the CPI and most of its other components in cities where American Inesco has projects. The pattern of change can be traced in Table 21.

In relative terms, inflation has altered the return to ownership or new investment in rental property as compared to homeownership and other types of investments, e.g., office buildings and hotels. High interest rates, reflecting inflation, can adversely affect the profitability and cash flow of rental property. For example, assume an apartment building has an annual rent of \$140,000 and operating costs of \$80,000. The gross income is \$60,000. If this unit were bought during a period of low inflation for \$700,000, or about five times the gross income, the gross return would be

Table 20

Changes in the Consumer Price Index for Rents and Other Components  
1970 - 1980

CPI and Components	Percentage Change	
	1970-1980	Compound Annual Rate
Residential, Rents	74.1	5.7
Total CPI <sup>1/</sup>	117.4	8.1
Household operation	122.8	8.3
Shelter	127.9	8.6
Homeownership	144.4	9.3
Other Rental Costs	110.6	7.7
Fuel & Utilities	158.9	10.0
Transportation	121.6	8.3
Food	121.6	8.3
Services	122.3	8.3

<sup>1/</sup> All urban consumers.

Source: Calculated by Brimmer & Company from data provided by Bureau of Labor Statistics.

Table 21  
Increases in the Consumer Price Index, Rents and other Components  
In Cities Where American Invsco Has Projects  
1970-1979  
(Per Cent)

City	Residential Rents	CPI <sup>1/</sup>	Housing	Shelter	Homeownership	Other Rental Costs	Fuel and Utilities	Transportation	Food	Services
Atlanta, GA	38.5	79.9	N/A	76.7	86.1	N/A	115.5	81.7	107.5	87.5
Chicago, IL	49.3	83.6	N/A	92.9	109.6	N/A	101.1	80.4	105.2	86.0
Cleveland, OH	47.8	78.5	N/A	87.8	96.0	N/A	130.9	75.0	101.1	93.2
Dallas, TX	56.8	84.2	N/A	92.5	105.1	N/A	92.3	94.8	105.4	87.8
Denver, CO	51.3	N/A	N/A	128.4 <sup>2/</sup>	147.4	N/A	94.5	85.5	105.4	N/A
Detroit, MI	58.3	77.6	N/A	84.1	88.2	N/A	139.1	91.1	96.6	100.6
Houston, TX	61.0	93.6	N/A	128.9	151.7	N/A	143.0	84.6	115.0	115.8
Kansas City, MO	40.4	87.4	N/A	104.4	123.3	N/A	102.6	89.1	106.0	92.0
Los Angeles, CA	68.5	82.2	N/A	99.8	109.2	N/A	74.9	98.4	104.5	94.6
Miami, FL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Milwaukee, WI	53.6	87.8	N/A	94.7	109.4	N/A	119.8	93.7	107.7	91.3
New York, NY	70.2	75.3	N/A	74.6	74.5	N/A	150.0	85.3	97.3	86.2
Philadelphia, PA	62.1	79.4	N/A	78.4	82.2	N/A	119.8	87.2	107	85.7
Washington, D.C.	65.5	85.9	N/A	91.2	102.8	N/A	120.4	90.1	109.5	90.7

1. All urban consumers.

2. Period covered is 1971-1979

Source: Calculated by Brimmer & Co. from data provided by U.S. Department of Commerce and Bureau of Labor Statistics.

approximately 8.6 per cent (the \$60,000 in net operating income divided by \$700,000 purchase price). Assuming an 80 per cent mortgage of \$560,000 for 20 years at 6 1/2 per cent interest, the annual interest cost would be roughly \$50,000 leaving about \$10,000 a year in cash flow (\$60,000 net operating income minus \$50,000 debt cost). The net return on the equity investment would be 7.1 per cent - (\$10,000 divided by \$140,000, represented by the 20 per cent down payment).

However, during inflation, interest rates would be higher, and the cash flow and return on equity drop significantly. For example, using the same assumptions as above except allowing for a higher interest rate of 10.5 per cent, the annual mortgage payment would be \$67,000 and the borrower would face a cash deficit of \$7,000 a year (\$60,000 minus \$67,000) instead of a positive 7 per cent return on the equity investment. Thus, during periods of little or no inflation, the investment is appealing; during period of high rates of inflation, the investment is not attractive.

The adverse effect of inflation in absolute terms on ownership of rental housing puts the latter at a competitive disadvantage relative to other types of investments. In other areas of real estate (such as

hotels, shopping centers, and office buildings) increases in costs can be passed on more readily in the form of higher rents and lease payments.

Reflecting these differences, more funds have been directed to these other investment opportunities and less to residential rental property. This is corroborated by the redirection of funds by savings and loan associations away from rental housing to other kinds of investments during the 1970's. The figures are shown in Table 22. A similar redirection of lending has occurred at life insurance companies.

The net result has been a dramatic decline in new construction of multi-family rental housing. The extent of the cutback can be traced in Table 23. For example, in the period 1970-73, multi-family units represented about 44 per cent of all private housing starts in the country. The fraction dropped to 23 per cent in 1975, and it has remained well below one-third since then. Moreover, new construction of rental units normally account for over four-fifths of all multi-family starts. But, in the last year or so, the proportion has been well below that benchmark.

The relative stagnation in the construction of rental housing is also traceable in the statistics on new apartment buildings presented in Table 24. In the

Table 22

Apartment & Home Mortgage Loans Extended by Savings and Loan Associations,  
1971 - 1979

(Amounts in Billions of Dollars)

<u>Year</u>	<u>Total Loans</u>	<u>Home Loans</u>	<u>Home Loans as a Per Cent of Total Loans</u>	<u>Apartment Loans</u>	<u>Apartment Loans as a Per Cent of Total Loans</u>
1971	\$39.8	\$29.9	75.1	\$9.9	24.9
1972	56.5	43.8	77.5	12.7	22.5
1973	55.2	44.8	81.2	10.4	19.8
1974	40.1	33.2	82.8	6.9	17.2
1975	42.0	41.4	98.6	0.6	1.4
1976	69.6	65.7	94.4	3.9	5.6
1977	107.0	99.7	93.2	7.3	6.8
1978	115.9	105.7	91.2	10.2	8.8
1979	116.4	105.4	91.4	10.0	8.6

Source: Calculations by Brimmer & Company on the basis of data from  
the U.S. League of Savings Associations,  
Savings & Loan Fact Book, 1980, Table 19, p.27.

**Table 23**  
**New Construction of Private Multi-Family Housing, 1970-1980**  
 (Number of Starts in Thousands)

Year	Total Private Starts	Multi-Family Starts		1/ Rental Starts		FHA Insured Starts	Rental Starts Minus FHA
		Number	Per cent of Total	Number	Per cent of Multi-Family		
1970	1,434	621	43.3	N.A.	-	N.A.	N.A.
1971	2,052	901	43.9	N.A.	-	N.A.	N.A.
1972	2,357	1,047	44.4	N.A.	-	N.A.	N.A.
1973	2,045	913	44.6	741	81.2	89	652
1974	1,338	450	33.6	320	71.1	38	282
1975	1,160	269	23.2	224	83.3	28	196
1976	1,538	374	24.3	310	82.9	63	247
1977	1,987	536	27.0	445	83.0	78	367
1978	2,020	587	29.1	469	79.9	84	372
1979	1,743	551	31.6	378	68.6	72	306
1980		441		N.A.	-	N.A.	N.A.

N.A. - Not Available.

1/ Total private multi-family starts minus starts intended for condominiums and other private starts.

Source: Calculations by Brimmer & Company on the basis of data from (1).  
 FHA-Insured Starts - U.S. Department of Housing and Urban Development,  
 1980 Statistics Yearbook, and (2). Total Private Multi-family Starts -  
 Bureau of the Census, U.S. Department of Commerce, Construction  
 Reports "Housing Starts," Table 1, May, 1980.

Table 24

New Construction of Private Apartment Buildings, 1970-1979  
(Private Starts. Number in Thousands)

Year	Number of Buildings	Apartment Units Average Number Per Bldg		Total Number of Private Starts	Number of Apt. Units As Per Cent of Private Starts
1970	31.7	535.9	16.9	1,433.6	37.4
1971	48.9	780.9	16.0	2,052.2	38.1
1972	56.8	906.2	16.0	2,356.6	38.5
1973	50.8	795.0	15.7	2,045.3	38.9
1974	25.5	381.6	15.0	1,337.7	28.5
1975	14.7	204.3	14.0	1,160.4	17.6
1976	21.6	289.2	13.4	1,537.5	18.8
1977	30.5	414.4	13.6	1,987.1	20.9
1978	31.7	462.0	14.6	2,020.3	22.9
1979 <sup>2/</sup>	31.2	426.9	13.7	1,742.5	24.5

1/ In buildings with 5 or more units.

2/ Preliminary

Source: Calculations by Brimmer & Company on the basis of data from the  
U.S. League of Savings Associations, Savings & Loan Fact  
Book, 1980, pp. 16 and 24.



early 1970's, the number of new buildings started averaged just over 50,000 per year. During the recession of 1975, new starts fell to 15,000, and the level has recovered to only 30,000 over the last few years.

The new building constructed in the early 1970's added about 800,000 individual units per year to the housing stock. By the end of the decade, the new supply had fallen to just over 400,000. Multi-family units represented about 38 per cent of all private housing starts in the early years of the decade, but the proportion was down to one-quarter in 1979. Moreover, as another mirror of the effects of inflation, the average number of units in the new apartment buildings shrank from 16.9 in 1970 to 13.7 in 1979.

Inflation has also had seriously adverse effects on owners of existing rental buildings. In the face of rising costs and lagging rents, landlords have several choices. One of these is to allow their properties to deteriorate by neglecting maintenance. Another is to reduce the taxes paid. Income/expense data collected by the Institute of Real Estate Management suggest that this is happening. Still another choice is to abandon their buildings altogether. All of these choices have adverse financial and social implications for the cities

in which the buildings are located. The results are declining neighborhoods, loss of revenue, and the erosion of private investment and jobs.

In some cases, landlords can continue to operate as long as a positive cash flow can be sustained. However, this is also likely to be a function of age of the buildings and need for refinancing. The rental stock is aging, and net operating profits may not sustain new large mortgages at inflation-driven interest rates.

Finally, the owner can sell the building. At this point, the return from converting the building to a condominium will be much higher than the return from operating the building as rental property for all the reasons that led to the landlord wanting to sell. Hence, the most rational action on the part of the landlord is to sell the building for immediate or ultimate conversion to condominiums where demand and supply factors favor higher returns.

C. Inflation and the Supply of Ownership Housing

In contrast to its affect on the rental market, inflation has stimulated the supply of ownership housing. The latter is composed of newly constructed single-family houses and condominiums and the conversion of existing rental apartments to condominiums. Inflation affects the different components of these kinds of housing in varying ways.

Inflation has contributed to rapidly rising costs of new construction such as materials, labor, and financing. Costs of residential construction (as reflected in the Boeckh composite index) increased 8.6 per cent at an average annual rate from 1970 to 1979, as indicated in Table 25. This rise was commensurate with the increase in the producer price index (PPI) over the same period, which rose at an average annual rate of 8.8 per cent.

In the case of single-family housing, the number of starts increased at an average annual rate of 4.4 per cent - expanding from 813,000 units in 1970 to 1.194 million in 1979. There were only 852,000 starts of single-family houses in 1980, a recession year. Yet, even this figure was above the 1970 level.

Inflation has contributed to the growth of condominiums - and especially condominium conversions. However, inflationary pressures have had a smaller impact on condominiums than on the supply of new single-family housing. The reason is that builders of new condominiums employ the same methods used in the construction of any multi-family unit. They are able to capture economies of scale which permit them to offset some of the effects of inflation on costs which are evident in single-family construction.

Table 25

Indices of Inflation and Single-Family Housing Starts  
1970 - 1980  
(Numbers in Thousands)

<u>Year</u>	<u>Residential Cost Bosch Index</u>	<u>Producer Price Index</u>	<u>Number of Single-Family Housing Starts</u>
1970	84.0	110.4	813
1971	91.1	114.0	1,151
1972	100.0	119.1	1,309
1973	109.2	134.7	1,132
1974	118.0	160.1	888
1975	125.9	174.9	892
1976	136.2	183.0	1,162
1977	148.5	194.2	1,451
1978	161.8	209.3	1,433
1979	176.6	235.6	1,194
1980	186.0	268.6	852
<u>Average Annual Percentage Change</u>			
1970-1980	7.8	9.3	0.5
1970-1979	8.6	8.8	4.4

Source: Computations by Brimmer & Company based on data provided by U.S. Department of Commerce (Column 1), Bureau of Labor Statistics (Column 2) and Bureau of the Census (Column 3).

For example, increases in relative values of developed land are an important component of rising housing costs, and they are particularly significant in major urban areas. To the extent that the construction of condominiums enables developers to economize on this scarce resource, it contributes to a reduction in the unit costs of providing housing. Furthermore, while material costs may be comparable for all types of housing, the construction of multiple units may provide other economies through mechanized effort, pooled managerial and other skills, and accelerated completion.

Condominium conversions offer further advantages over new construction (whether of single or multi-family housing) under conditions of rapid inflation. The cost of converting per square foot is less than the cost of new construction. Therefore, inflation has adversely impacted the supply of condominiums through conversions to a lesser extent than it has affected new construction. As a result, the converter is able to offer the converted units at prices below that a builder would have to get for newly constructed condominiums of comparable size and quality.

#### V. Myths and Reality in Condominium Conversions

The conversion of existing rental units to condominiums has been criticized on grounds which reflect a basic lack of understanding of this segment of the housing market. Five of the charges are:

- (1) Condominium conversions cause inflation.
- (2) Conversions produce excessive profits for real estate speculators.
- (3) Conversions reduce the rental stock.
- (4) Conversions result in displacement of the disadvantaged.
- (5) Conversions drain funds from the mortgage market.

These charges are not supported by the readily available evidence. Instead, they seem to be woven primarily from a mixture of rumors and mis-information. In other words, the criticism amounts to a perpetuation of myths.

Each of these myths is examined in this section - and each is shown to be without foundation in fact.

#### A. Alleged Contribution of Conversions to Inflation

Some critics have charged that conversions cause inflation. It is said that a typical condominium converter bids up prices of rental apartment buildings because he "knows" he can make a big profit. The converter then does little to improve the individual units before selling them at arbitrarily high prices.

In so doing, he drives out residents who cannot afford to purchase. The elderly, relatively low income, and handicapped persons comprise a disproportionate share of those who are unable to purchase. These persons incur considerable costs in moving and must pay higher rents to obtain comparable units elsewhere. Those who do purchase the units suffer substantially higher monthly housing costs than they had been paying as renters. The converter sells the vacated units to outside non-residents who can afford the units because they are relatively better off or are speculators in real estate. Thus, the converter realizes an exorbitant profit. Further, he drives up prices of surrounding property. So, the entire conversion process is inflationary.

The above scenario shows confusion about the nature and causes of inflation, and it paints an inaccurate picture of the role of profits. Inflation is a rise in the general price level. It is not simply a rise in the price of a single good or service. An increase in the price of a single good would alter the market value of that particular product in relation to the value of other products - some of which compete with the first item. The price ratios among the different products would change. As demand and supply readjust, some other prices may fall. But the general price level, would not be raised.

The rate of inflation in the economy as a whole must be measured by indexes such as the gross national product deflator (GNP deflator), the consumer price index (CPI), and the producer price index (PPI). Using the CPI as an example, the index represents the composition of a market basket of goods and services bought by the average consumer during a specified period of time, weighted by the relative shares of each good or service in the consumer's total expenditures. The index can be used to compare changes in price levels (assuring the relative weights of each item remain the same) over time. One of the primary purposes of the index is to avoid confusing changes in the price of a single good with variations in the rate of inflation.

Thus, inflation is a phenomenon which mirrors a rise in the general level of prices. It is not the same thing as an increase in the price of a specific good or service. Inflation is the result of the interplay of aggregate demand and supply in the economy as a whole.

Changes in relative prices of different types of housing can be traced to the differential performance of various segments of the market. In the rental market, rising costs in the face of lagging rents have greatly diminished the new supply of rental housing. The introduction of condominiums, however, partially



offsets some of the inflationary pressures in that sector of the market where the demand for homeownership is registered. By adding to the supply of housing, condominiums provide opportunities to people who would otherwise have bought single-family houses or continued to live in rented quarters. This increased supply of ownership units helps to moderate the demand and price pressures in the markets for both single-family housing and rental units.

B. Role of Profits in Condominium Conversion

The charge that condominium conversions produce excessive profits is also false. Profits earned by the condominium converter (or losses suffered) are a natural and inherent aspect of the real estate market. Any failure to appreciate this fact is also a failure to comprehend the meaning, derivation, and role of profits in a market economy.

Profits arise when total revenues of business enterprise exceeds its total costs. There are two types of costs which must be considered. One type is explicit and readily understood. The other is implicit and frequently overlooked. Explicit costs cover factors of production such as land, labor and capital. Implicit costs include normal profits which must be sufficient to induce entrepreneurs to undertake the risks associated with a particular business.

The excess of revenues over costs, i.e., profits in the economic sense, arises from the presence of two factors - risk and uncertainty. The level of profits reflects the interplay of demands and supply in the market place - as well as the efficiency with which a business is conducted. In the case of condominium conversions, profits of the converter (as the entrepreneur and innovator) must be evaluated in terms of the risks and uncertainty associated with the conversion process. Thus, there is no independent yardstick which would enable one to assert that the prices charged are outrageous or exploitative. The converted units are worth simply what any one is willing to pay for them. Profits, as well as losses, are merely ex post validations of intrinsically difficult business judgments in the context of uncertain ventures.

Another myth about profits arises from a false perception of the role of non-resident investors. It is argued that these "outsiders" rush in and buy up units at the time a building is converted, hold them off the market to force up prices, and thus realize large speculative profits.

The argument is rooted in the old and discredited "engrossing" doctrine. In the late eighteenth century, some critics of the then emerging market economy were

fearful of the prospect that a handful of buyers of a product (particularly agricultural commodities at the time of harvest) might grab the entire supply and wait for demand to push up the price. If they held out long enough before selling, they could realize large windfall profits.

There is no way for non-residents to engross the supply of newly converted units. The records shows that, when a rental building is converted, the vast majority of the units are purchased by persons already living in them. This is certainly the case in buildings converted by American Invaco Corporation. When non-resident buyers do purchase condominiums, they do not leave them vacant. Instead they are rented - frequently to the tenants who were renting from the previous owner. The amount of rent the new investor can charge cannot be set arbitrarily because otherwise competition from other suppliers of rental housing will undercut the rents he is asking.

In the same vein, there is a limit on the price a non-resident owner can eventually get when he finally sells his unit. This limit is set by the interaction of supply and demand in the market for condominiums of similar size and quality. The investor may own one or more units in a particular building. But he cannot influence the demand, and he does not control the entire

supply. So, even if he were to attempt to engross the available condominiums, market forces would defeat his efforts.

C. Condominium Conversions and the Rental Stock

The charge that condominium conversions erode the supply of rental housing is not supported by the available evidence. A study by the U.S. Department of Housing and Urban Development published in 1980 addresses this issue directly. The study concludes as follows:

"...This analysis indicates, nationally, that for every 100 rental units converted, there is a net increase of 5 units for sale to owners, and a net decrease of 5 available rental units. In other words, when changes in the demand and supply resulting from conversion are juxtaposed, the effect on the rental market is considerably less than the total of all units converted."

The substantially smaller effect on the supply of rental housing resulting from the conversion to condominiums is attributed to several factors. First, many of the converted units remain in the rental stock as they are rented out to third parties. The HUD study estimated that, based on its analysis, 37 of the 100 converted units were occupied by renters. Second, of the 63 units removed

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1/ The Conversion of Rental Housing to Condominiums and Cooperatives, June, 1980, pp. iii.

from rental status as a result of the conversion of 100 units, renter demand was decreased by 58 units. The reduction in renter demand was composed of the 49 renters who purchased the converted units and the 11 renters in the building who moved but bought housing elsewhere minus two previous homeowners who moved to the converted units as renters. Thus, the net loss from the conversion of the rental units to condominiums on the supply of rental housing is 5 units (100 minus 37 units minus 58), or 5 per cent of the total 100 units.

This charge, by focussing narrowly on only the rental housing market (and by misunderstanding the way the market works), ignores the broader issue of the contribution of conversions to the total supply of housing. As the 1980 HUD report recognizes, the effect of the conversions is also to increase the supply of ownership housing for which there has been an especially strong demand. Any reduction of the availability of rental housing must be balanced by condominiums' positive contributions to the overall housing market.

#### D. Conversions and Displacements

Some observers also confuse the modest reduction in the rental stock caused by conversions with displacement of renters, particularly the poor, elderly, and handicapped. The issue is complex because it is difficult either to define displacement conceptually or to measure it statistically.

Conceptually, it is a mistake to characterize all non-buyers in a building to be converted as displaced. Renters, as a group, have historically demonstrated high turnover rates compared with homeowners. Thus, people who do not buy condominiums within the building in which they reside may do so for many reasons having nothing to do with being displaced. Some of these tenants buy homes (condominiums or other single-family houses elsewhere) because they prefer a different condominium unit or house to the one in which they reside. Even among those who continue to rent, some remain in the building as renters and hence are not displaced at all. The concept of displacement also implies that these persons cannot readily find alternate housing at comparable prices. Yet, each of the surveys which have addressed this issue indicates that most tenants who moved did not have difficulty relocating in similar housing at similar prices.

Perhaps the most critical aspect of the displacement issue is the question of affordability. Besides the inconvenience of moving, the major fear held by some observers is that tenants are displaced because they cannot afford to buy their units. However, affordability is also difficult to measure. The standard criterion traditionally used by lending institutions is as follows:

A buyer can afford to purchase a unit if the price of the unit is 2 1/2 times the household income or conversely if the income is more than 40 per cent of the purchase price. Household income does not, however, capture the full scope of affordability. Persons may have other assets or sources of funding (a house or other property, stocks and bonds, savings, gifts from parents and friends) which may enable them to purchase a house or condominium - despite their inability to meet the income criterion.

To gain some insight into the affordability issue, a survey was conducted of tenants in four buildings converted by American Invaco. These were - the Grosvenor and Promenade in Bethesda, Maryland; the Plaza 400 in New York City, and Beaver Hill in Philadelphia. The Grosvenor was converted in mid-1979. The others are still in the process of conversion. Some of the results of the survey are presented in Table 26. The number of occupied households is defined as the total number of units minus vacant apartments, apartments set aside for resident managers and maintenance people, and apartments leased to corporate groups or business as opposed to households.

Affordability was assessed using the lending institutions' criterion for each household occupant. As noted in the table, in some instances, information on income or purchase price was not available, hence

Table 26

## Profile of Buyers and Non-Buyers in Selected American InvSCO Buildings

	GROSVENOR 3/		PLAZA 400 2/		BEAVER HILL 3/		PROMENADE 2/	
	Number	Per Cent Of Total	Number	Per Cent Of Total	Number	Per Cent Of Total	Number	Per Cent Of Total
TOTAL NUMBER OF UNITS	1,051	-	628	-	457	-	1,072	-
Total Number of Occupied Household Units	979	100.0	584	100.0	373	100.0	993	100.0
Buyers	552	56.4	431	77.2	93	24.9	124	12.5
Non-Buyers	427	43.6	133	22.8	283	75.1	869	87.3
Not Available	-	-	-	-	-	-	2	0.2
Number of Affordables 1/	281	28.7	511	87.3	90	24.2	499	50.2
Buyers	183	18.7	412	70.6	34	9.2	84	8.5
Non-Buyers	98	10.0	99	16.9	56	15.0	413	41.7
Number of Non-Affordables 1/	403	41.2	36	6.2	281	75.3	333	33.6
Buyers	227	23.2	10	1.7	39	13.8	21	2.2
Non-Buyers	176	18.0	26	4.3	222	59.5	312	31.4
Number For Whom Price Data Not Available	295	30.1	37	6.3	2	0.5	163	16.2
Buyers	142	14.5	29	4.9	0	0.0	19	1.9
Non-Buyers	153	15.6	8	1.4	2	0.5	142	14.3
Median Income	25,000		75,000		25,000		30 & 39,000	
Median Purchase Price	32,000		92,000		72,000		85,000	

1/ Affordability defined as when the sales price exceeds 2.5 times the estimated income or the estimated income is less than 40 per cent of the sales price.

2/ Purchase prices include discounts.

3/ Purchase prices do not include discounts.

Source: Computations by Brimmer and Company from data supplied by American INVSCO Corporation.



no determination of affordability could be made.

Several features of these data should be noted. In the Plaza 400, more than three-quarters (77 per cent) of the occupied household units bought the apartments in which they were living. At the Grosvenor, almost three-fifths (56 per cent) also purchased units when the building was converted. The proportion of buyers in the other two buildings so far is quite small. In Beaver Hill, 25 per cent have bought, and at the Promenade only 13 per cent have done so.

But it should also be noted that the context of the conversion process at the Promenade (and to some extent at Beaver Hill) is far from normal. The environment is still disturbed by controversy over the right of the new owner to convert the building. Until the atmosphere becomes more settled, the question of the ultimate number of sales must remain suspended.

The issue of affordability appears to have little bearing on the decisions of the tenants in the four American Invesco buildings.

Based on the definition of affordability, the proportion of household occupants who could afford to buy varied from a high of 88 per cent in the Plaza 400 to a low of 24 per cent in the Beaver Hill. Expressed differently, the household occupants who could not afford

to buy ranged from a low of 6.2 per cent of household occupants in the Plaza 400 to a high of 75 per cent in the Beaver Hill.

However, despite the criterion, many of these households did buy their units. These persons ranged from a low of only 1.7 per cent of all household occupants in the Plaza 400 to a high of 23 per cent in the Grosvenor.

The extent of non-affordability among tenants must be qualified further by the definition of purchase price used to determine affordability. Purchase price in the Grosvenor and Beaver Hill do not include discounts. The purchase price discount in the Beaver Hill for residents is 15 per cent (plus free maintenance for 12 months). In the Grosvenor, it was 1 per cent plus several other benefits. So, the purchase prices recorded in the table for these two buildings are most likely above the actual transaction prices, and the number of non-affordables is overstated.

But aside from the question of the actual amount of displacement which may occur, the conversion of rental buildings to condominium ownership may impose burdens on some renters. In some cases, these burdens can be partially offset - while in most other instances most of the adverse consequences can be ameliorated - if developers were to recognize the need to provide assistance for some tenants.

All parties participating in the conversion process should agree that those who benefit from a change in a long-standing situation should share part of the gain with those who are made worse off. In the case of condominium conversions, the owner of a rental building who sells it for conversion, the developer who buys it and reoffers units for sale, and the purchaser of an individual unit are all beneficiaries of the change in the form of ownership. Those who may be made worse off, and who thus become appropriate subjects for assistance, may include older persons, those with handicaps, and others who are unable to meet the financial terms required to purchase a unit.

This approach suggests that tenants who really are unable to purchase units ought to be helped in some way. In fact, many developers are pursuing this policy. The assistance takes numerous forms. For example some elderly or handicapped tenants are given the option to remain renters. This means that the developer or an outside investor must purchase and hold those units rather than sell them to a buyer who would want to occupy them. As a result, the rental unit must provide a rate of return sufficient to induce the investor to hold on to it. If the rent is not adjusted enough to meet this standard, the renter is receiving a subsidy from the investor who owns it.

In other instances, the developer may provide relocation aid to tenants who chose to move out. These payments may include actual moving expenses as well as amounts to cover several months' rent in another building.

But whatever the specific types of assistance offered, the developer's decision to aid tenants results in a form of private transfer payments. These efforts entail a financial cost to the developer. If they had not been undertaken, the profits that would be realized when all of the available units are finally sold would have been larger than the amount actually recorded. Thus, the monetary value of the tenant aid has its counterpart in a smaller profit realized by the developer on his investment. So, those who see themselves as losers in the condominium conversion process are aided by those who benefit from the conversion.

Beyond these private efforts, it is the responsibility of public policy to take care of the housing for the needy. Thus, the burden of assisting these persons must not lie solely on the shoulders of the converter. This broader issue remains to be addressed. However, prohibiting condominium conversion is neither an appropriate nor adequate remedy.

#### E. Condominium Conversions and the Mortgage Market

It has also been asserted that condominium conversions

drain off from the mortgage market funds that should be used to finance the purchase of single-family residences. This is a distorted perception of the nature and functioning of the mortgage market at this juncture in our nation's history.

That view implies that the mortgage market consists exclusively of a stagnant pool of funds specially designated to finance the acquisition of single-family homes by moderate and low-income homebuyers. So any use of real estate credit by anyone else is seen as not only improper but actually harmful to the economy at large.

This clouded vision of the mortgage market is a throwback to an earlier period when the Federal Government did try to build a corral for the roundup of cheap funds to be channeled into housing finance. At the core of the mechanism were the savings and loan associations (S&L's). They were reinforced by Government-imposed ceilings on the rates of interest which S&L's, mutual savings banks, and commercial banks could pay on deposits. These ceilings were typically considerably below what savers could get on other money market investments. Yet, they did enable the financial intermediaries to raise a substantial volume of funds while keeping down the cost of doing business.

The lenders, in turn, redistributed the savings primarily to buyers of single-family houses which were

increasingly located in the suburbs. These homeowners could also take advantage of Federally insured or guaranteed mortgages. The net effect was to expand considerably the supply of mortgage funds while reducing the interest costs to buyers of single-family homes.

In recent years, the scheme has fallen apart. Savers are far more sophisticated, and they demand rates of return on their liquid balances far above what S&L's and the banks can offer under the interest rate ceilings. While these maximum rates have been raised somewhat, the traditional mortgage market lenders remain at a competitive disadvantage compared with the yields offered by other outlets, such as U.S. Treasury bills, money market funds, and other short-term investments.

Consequently, the mortgage as traditionally known is going through a basic transformation. New instruments to raise funds are being fashioned, and new types of mortgages are being devised. The S&L's and banks which are able to attract funds are doing so because of their willingness to press as hard as they can - within the existing interest rate ceilings - to offer the maximum rates possible. For this purpose, they have relied increasingly on the use of money-market certificates and somewhat longer-term instruments. Both of these are

high cost obligations, and they have exerted considerable pressure on the institutions' cost of doing business. They, in turn, have posted progressively higher interest rates on the mortgages they have made available. Yet, borrowers who are able and willing to pay the rates required by a much more sophisticated mortgage market are able to obtain funds.

The argument that conversions drain away mortgage funds overlooks the fact that the owners of rental apartment buildings also rely on the mortgage market. If the previous owner held a building for a long time and then sold it for conversion to condominiums, he may very well have built up a sizable equity in the property. But the chances are also high that some amount of debt was still outstanding.

For this reason, mortgage credit extended to individual purchasers of the converted units would very likely replace the debt that was outstanding prior to the sale of the building. In the aggregate, the new volume of mortgages may exceed the single large mortgage which was the liability of the original owner of the building when it consisted of rental units. On the other hand, since condominium units tend to be less expensive than single-family houses, a given number of condominiums is

likely to absorb a smaller amount of mortgage funds than would be required to underwrite the purchase of the same number of free-standing houses.

So, in summary, the use of the mortgage market by buyers of condominium units is as legitimate as that made by any other homebuyer. Any borrower who meets the income criteria and is willing to pay the prevailing mortgage @ interest rate ought to enjoy the same access to the market as anyone else.



STATEMENT OF NICHOLAS S. GOULETAS  
BEFORE THE SUBCOMMITTEE ON COMMERCE,  
CONSUMER, AND MONETARY AFFAIRS OF THE  
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS  
97th CONGRESS, 1st SESSION  
April 1, 1981

My name is Nicholas S. Gouletas. I am Chairman of American Invsco Corporation. I am pleased to have the privilege of presenting this statement concerning the condominium conversion process and the role of American Invsco in that process.

I speak to you as a businessman from the standpoint of my practical experience in this field. Because condominium conversion also raises technical issues in the areas of economics and social policy, I am pleased to have appearing with me today two leading experts.

Hon. Thomas L. Ashley, Congressman from Ohio for 26 years and most recently Chairman of the Housing Subcommittee of the House Banking Committee, will address various questions of housing policy.

Dr. Andrew F. Brimmer, a prominent economist and former member of the Board of Governors of the Federal Reserve System, will address certain economic issues.

Also present with me today are Mr. Jay Erens, of Chicago, legal counsel to the Company, and Mr. James P. Fitzpatrick, Washington legal counsel.

I. PERSONAL AND COMPANY BACKGROUND

American Invsco is a group of affiliated companies that are owned by my brother Victor, my sister Evangeline, and myself. The three of us were born in Greece of American-born parents between 1936 and 1940. The outbreak of the Second World War made it impossible for us to return to this country. When our father finally arranged for us to return here in 1946, our family had been totally impoverished by the German occupation of Greece.

All of us lived in one room on the South Side of Chicago. My father and mother each worked two jobs. Victor, Engie, and I had to fend pretty much for ourselves. We learned the importance of work and the value of a dollar. We also were very proud to be Americans.

In school we learned about the American system of free enterprise and about the freedoms guaranteed by the Constitution. We saw America as a land of vast challenges and opportunities for anyone who was willing to work hard and honestly. We knew that such freedoms

and opportunities did not exist in many other countries of the world, and we considered ourselves fortunate to be here. We dreamed of the day when we would become full-fledged participants in the enterprise of America and would be able to give our best toward meeting its challenges.

Engle's career took her into mathematics, teaching, and government service. Victor earned a degree in engineering and law, after which he entered the practice of law. I pursued courses in architecture in college, got married, and left college in order to support my family. My first job was in sales and eventually I was promoted to a sales executive capacity.

During this time, the three of us began to buy real estate as a personal investment. We bought some small apartment buildings in our neighborhood. We always believed that real estate was central to the American way of life, and that it offered great opportunities.

During the late 1960s, Victor, Engle, and I determined that we should begin devoting all of our energies to real estate. We decided that in addition to continuing to invest in real estate for ourselves, we could fill a need by sharing our knowledge with others

and helping them enter the real estate field. We formed American Invasco around 1970. Each of us left our positions of employment and joined the new company on a full-time basis.

Initially, we developed a local real estate brokerage and management business in Chicago. In the course of that business, we learned how important it was to so many Americans to own their own home. We also saw how thousands of people were fleeing the city to escape deteriorating housing conditions and to be able to own a home. We realized that there was a need and an opportunity for someone who could take multi-family rental housing in the center city, upgrade it, and make the apartments available for individual ownership.

In early 1973, we converted our first major rental building in Chicago to condominium ownership. We did several more in Chicago, and subsequently, began branching out into other cities. We surrounded ourselves with people who shared our ideals of hard work and fair play and who were bright and motivated. We learned from our mistakes. We took our lumps but always maintained our principles.

Today, we are proud of our position of leadership in the industry. We have converted almost 70 projects to condominium or cooperative ownership in numerous markets throughout the country. We have thousands of satisfied customers whom we have helped to make one of the best and most important decisions of their lives. And we have led the way in developing this new and important method of making home ownership available to more Americans.

Our company is concerned with the effect of the conversion process on those tenants who for whatever reason are unable to purchase their units. Particularly where elderly tenants are involved, we understand that this can be an emotionally difficult experience. We believe our "voluntary assistance" programs, which I will discuss at greater length later, demonstrate that we have responded, affirmatively and with sensitivity, to this concern.

Certainly, we have been successful, and -- yes -- we have earned a profit. We have earned our profits because we have been willing to work hard, put up capital, employ our talents, and take large risks. Like any other business, we could not stay in existence if there was not a need for our product. And if we

- 6 -

did not deliver that product with high quality, efficient service and competitive prices and terms, we would soon be out of business.

For more than a decade, we have helped expand home ownership opportunities in this country. Based on that experience, I would like to share with you some of the things I have learned about housing in America. I would also like to describe the ways in which condominiums and cooperatives contribute to the expansion of this nation's housing supply.

## II. HOUSING AND CONDOMINIUMS

The most serious housing problems our nation faces today are short supply, high costs, and continuing inflation. These problems affect both rental and ownership housing, and are particularly acute in our large cities.

The problems are caused by fundamental and pervasive factors in our economy. They include skyrocketing construction costs, dwindling availability of land, high interest rates, high maintenance and energy costs, and government policies which discourage investment in certain types of real estate. To discuss these issues in detail would be far beyond the scope of these

- 7 -

hearings. But I would like to stress that if our national housing problems are to be solved, these larger issues will have to be addressed. Condominium conversion has not caused these problems; nor will prohibiting or unduly regulating condominium conversion solve them.

What is pertinent to these hearings is the particular relationship between rental housing and home ownership and the way that condominium conversion has helped thousands of Americans to own their own homes.

Ownership of one's own home has long been a major part of the American dream. Immediately before World War II, however, less than 44% of American families had achieved that goal. After the war, various federal policies as well as an expanding economy accelerated this trend toward home ownership. Today, over 65% of all American families own the home in which they live. But, as we have seen, high costs and a short supply of all types of homes are making that goal increasingly hard to attain.

For almost a decade, rental housing, especially multi-family buildings in the large cities, has fallen on hard times. Because of the many benefits offered by home ownership, increasing numbers of families have

- 8 -

opted to leave the rental market, making it more difficult for landlords to maintain rents at economic levels. Rent control and the threat of rent control have also tended to depress rents. As a result, rents generally have risen considerably more slowly than the Consumer Price Index. Tax incentives to invest in new rental property have been progressively reduced by tax reform acts passed since 1969. At the same time, landlords' operating costs have risen much faster than rents -- especially costs relating to construction, maintenance, energy, and interest.

The result is inevitable. The returns to owners of rental housing have been drastically reduced relative to returns on other forms of investment. Tenants have in effect been subsidized at the expense of landlords. Such a situation of course cannot continue indefinitely. Thus we see a large number of deteriorating or abandoned rental buildings in our cities. And we also see that construction of new rental housing by private enterprise has practically ceased, except where an outright government subsidy is provided.

I am not saying that all landlords are suffering net losses, though surely many of them are. I am saying that most owners of multi-family structures are at best



earning a rate of return on their capital that is quite unsatisfactory relative to other forms of investment. Suppose a landlord is earning a 5% rate of return on his capital. If he invested that same capital today, for example, in money-market instruments with almost no risk, he could earn say 15%. Even that 15% might not be adequate to keep him even with inflation running at 12%-13%, after considering the tax bite on the 15%. So at a 5% rate of return, that owner's capital is shrinking fast.

Picture this situation. On one side of the equation large numbers of apartment buildings -- finely constructed buildings in desirable center-city locations. Their owners can't get a satisfactory rate of return on them and can't afford to keep them up properly. On the other side of the equation, a vast demand for ownership of homes in the cities with a very short supply of such homes and practically no room to build new ones. Conversion of these desirable rental buildings to condominium or cooperative ownership provides a fresh supply to meet that demand. Free enterprise once again works.

I would now like to discuss the conversion process with you.

III. THE CONVERSION PROCESS

American Invsco, like other companies with whom we compete, fulfills the need I have described by performing the full range of functions necessary to bring a building from a rental status to eventual ownership by individual unit purchasers and even beyond. Some may think this is an easy task. I can assure you it is not. Our business requires a high degree of skill and entails a high degree of financial risk -- just like a business that, for example, processes raw materials into finished goods and distributes those goods to many ultimate purchasers.

We spend a great deal of time analyzing markets and identifying particular buildings that are suitable for conversion. We have tended to concentrate on premium properties -- well located, finely constructed buildings that house residents with incomes at the higher end of the scale.

Once we acquire a building, we have incurred a substantial financial risk running into many millions of dollars. The building becomes part of our inventory. At that point, we add to our books a physical asset, with a highly specific location. The only way for us

to dispose of that asset is to sell the individual units to those who want to own their residences. The selling process takes time. In the meanwhile, we carry all of the risks associated with the possession of a very expensive physical asset.

One of the first things we do is physical refurbishment of the building. It is just plain good business to put the building in good condition if we expect people to buy apartments in it. Some critics have charged that all we ever do is minor cosmetic touching up. This is not so. While we have acquired some buildings that were in such good condition that almost no work was required, other buildings have required major work. A modern apartment building is a very complex structure, and the work required may be extensive. For example, we have replaced whole air conditioning and other mechanical systems; we have repaired and replaced roofs and other structural members; we have replaced entire kitchens and bathrooms; we have glazed and caulked entire buildings; we have installed fire protection and security systems; and we have established back-up systems and preventive maintenance systems. Every year, we spend tens of millions of

dollars on this type of work, which is over and above the additional millions of dollars spent on new furniture, carpeting, draperies, wallpaper, light fixtures, and decorating to improve the appearance of the building and make it a more pleasant place to live.

During the conversion process, there are also many other functions we have to perform, each with its associated cost.

The legal requirements are extensive. Initially we must take the basic steps required to establish a complete and functioning condominium or cooperative regime which can be taken over by the ultimate owners. These steps include preparation of exacting surveys, preparation of a comprehensive condominium declaration, creation of the association to govern the building and preparation of its bylaws, and obtaining clear title and securing necessary title insurance. Increasingly in recent years, there have been many additional requirements imposed by state and municipal laws. These include notices to tenants, waiting periods, official filings and approvals, elaborate offering statements and other disclosures, inspections, warranties, special assistance benefits to certain classes of tenants, and so on.

- 13 -

Typically a conversion involves two phases -- one for the residents and one for the public. In all cases, we have offered the residents the exclusive right to buy their own apartments within a certain period of time, and have offered them special benefits during all or part of that period. These benefits include, depending on the project, price discounts of anywhere from 5% to over 20%, decorating or similar allowances, payment by us of their maintenance assessments for up to one year after they buy, and special mortgage financing arrangements on advantageous terms.

For those tenants who are elderly, sick, or otherwise cannot buy their apartments, we offer a number of programs designed to allow them to remain as renters for up to two years at their existing rent plus cost of living escalation and to assist them to find other housing. I believe our program goes far beyond that of most companies in helping our tenants and customers. For example, we have a customer relations department headed by a full-time tenant "ombudsman." He is paid by our company, but his job is to represent the tenants -- to listen to their problems, to assist them through the transition, and to report directly to me on ways that we can be more helpful.

We have to continue managing the building during the transition. We have a vital interest in keeping the building well managed and maintained so that it will be attractive to potential buyers. Such management requires special skills and entails additional costs that would not be incurred if the building had remained a rental property. All operating expenses continue, but rental income normally drops as a result of expected attrition of tenants during the transition. This rental loss can be a significant cost in a conversion.

We of course have to maintain an ongoing marketing and sales program, and this too costs money. Moreover our service does not stop when a purchaser signs a contract. We have a contract administration department that follows through with the buyer all the way from contract signing to the actual completion of the purchase. It assists the purchaser in every aspect of the closing procedure, including helping him to arrange and consummate mortgage financing. In many cases, we have purchased formal commitments from financial institutions to make mortgage loans to our customers.

Even after a building has been largely sold out, we continue to assist the condominium association

- 15 -

and its board of directors to acquire the skills necessary to govern the building.

Many people think that condominium converters are in and out of a building quickly and with little or no risk. I can assure you that this is far from the truth. For those projects which we have completely sold out, it took us a minimum of 10 months and a maximum of 57 months from the date of acquisition to reach the point where 95% of the apartments had been sold. 90% of the projects ran at least 14 months, and 70% of the projects ran at least 19 months.

In the case of projects in which at least 95% but less than all of the apartments had been sold, the time elapsed since acquisition ranged from 14 months to 33 months; 90% of those projects were in process for at least 15 months and 70% of them were in process for at least 16 months. And the recent proliferation of state and local laws which impose lengthy notice and waiting periods has been substantially increasing these holding periods. It is obvious that a significant cost of conversion -- the cost of money borrowed to acquire the building and to finance the other conversion costs -- is becoming even more major as interest rates

- 16 -

rise to record levels and holding periods continue to stretch out.

How many businesses do you know where inventory turns over less than once a year? Not only are the costs of holding such an inventory enormous, the risks we face are equally great. The cost of a single building often runs into tens of millions of dollars. We can be and sometimes have been faced with an unexpected turn in the market; a small change can result in a huge financial exposure. During the extended period in which we continue to hold substantial numbers of unsold units, many things can happen. Changes in local or national economic conditions can occur; interest rates can fluctuate widely; mortgage money can dry up; competitive projects can be brought to market; local legislation affecting the project can be passed. All of these things have happened to us at one time or another. They can frustrate the most carefully thought-out plans. But that is what risk-taking in business is all about, and we assume those risks with our eyes open.

#### IV. BENEFITS OF CONVERSION

I would like to acquaint you with some of the good things that happen when a condominium or cooperative conversion is successfully carried out.



The first and most obvious is that needs and demands for home ownership have been satisfied. There are large numbers of people who want to live in the center-city and own rather than rent. There has been a very limited supply of suitable homes to meet this need. Conversion of rental buildings creates a source of supply which did not previously exist to meet that need. And, as basic economics teaches us, increasing the supply of a commodity relative to the demand tends to hold prices down.

Why does this demand exist? More and more people not only want the intangible benefits of home ownership but are coming to recognize the concrete financial benefits. The biggest single cost of home ownership -- the purchase price of the home itself -- is fixed and will not increase despite inflation. And over the past several years, investment in a home has appreciated at a rate considerably greater than the general rate of inflation. In fact, for many families, the investment in their home has been the only decent hedge they have had against the ravages of inflation. Add to this the fact that homeowners secure an income tax deduction for a large part of their annual outlay -- real estate taxes and mortgage interest -- a benefit not available to renters.

The demand has also been fueled by demographic factors, which Dr. Brimmer will explain in more detail. After years of flight to the suburbs, many people want to return to the cities. In addition, skyrocketing costs of single family homes have priced them out of the reach of many families. For these people, a condominium in the city may be the only affordable route to home ownership.

One immediate result of a conversion is that the building is physically upgraded. This contributes to the welfare not only of the residents but also of the surrounding community. And since local contractors and material suppliers are usually employed, the refurbishment brings money and employment to the community.

Another immediate result of a condominium or cooperative conversion is that capital is dispersed. If a building has 100 apartments, you now have 100 different owners with a capital investment, where previously you had only one. Thus wealth has been disseminated among a much larger group.

Ownership by the residents produces a number of other benefits. The building is going to be far better maintained. A renter does not care as much about

- 19 -

the condition of the building and he has almost no control over its maintenance. A unit owner cares a great deal more, and he and his neighbors can control its maintenance. In addition, an owner is going to be willing to put improvements into his own apartment -- in some cases by investing money to have the work done by others, and in some cases by doing the work himself and thereby creating a new "sweat equity" in the unit.

The rate of resident turnover is lower in condominiums and cooperatives than in rental buildings. As a result, neighborhoods will be more stable. Longer-term residents with a financial stake in their homes will be more likely to involve themselves in civic and community affairs.

Conversions attract people back to the city with higher spendable incomes, which is circulated into the city's economy.

Local governments are direct beneficiaries of the conversion process. In almost every conversion, the value of all the individual apartment units is greater than the value of the building before the conversion. As a result, the real estate tax base increases significantly and local tax revenues increase

accordingly. These revenues are available to improve local services, such as schools, police and fire protection, health services, recreational facilities, and public works.

Conversions also stimulate construction of new rental buildings. If the economics of operating an apartment building as a rental property were the only incentive, no new buildings would be built except under government subsidy programs. I can tell you from personal knowledge that some new rental buildings have been built recently because and only because of the opportunity to convert them to condominiums a few years down the line. The developers know that the buildings cannot be operated economically as rental properties. They are willing to build these buildings and to accept little or no return on their investment for a few years solely because they anticipate that the buildings can then be converted to condominiums at a reasonable profit over their original investment.

Finally, we are seeing nonresidential buildings in our center-city areas being saved from abandonment by conversion to condominiums. Warehouse buildings, plants, office loft buildings, old schools, hotels, and other structures which are no longer useable as

such are being renovated and converted to residential use as condominiums or cooperatives. If it were not for this process, these buildings would become totally useless. Because of the process, assets are saved and upgraded, capital is infused into the community, and a totally new supply of residential housing stock is created.

#### V. DEBUNKING THE MYTHS

Condominium conversion is a relatively new phenomenon in the United States. Like many new social and economic phenomena, it tends to be widely misunderstood. A number of myths have grown up around condominium conversion. It is important that these myths be exposed and the true facts understood.

##### 1. Conversions and Inflation

Some people think that conversion of rental properties to condominium or cooperative ownership contributes to inflation. This belief is completely fallacious.

Condominiums and cooperatives are part of the overall housing market. The types of housing include detached single-family homes; semi-detached arrangements

such as townhouses and garden apartments; and apartments in low-, medium-, and high-rise buildings. Any type of housing unit might be either rented or owned by its occupant. Condominiums and cooperatives typically constitute that part of the market represented by individually owned apartment units in medium- or high-rise buildings.

American Invesco operates in the condominium-cooperative segment of the housing market. Like every other provider of housing, we operate under all the competitive constraints of the marketplace. Our converted units compete in the first instance with other condominiums and cooperatives. These include newly constructed units being marketed for the first time; units in other rental buildings being converted; and units already owned by individuals who are reselling them.

In addition, our product competes with other forms of housing, including detached single-family homes, townhouses, and garden apartments. A person seeking shelter has a range of options. As sellers of condominiums, we represent merely one of those options.

Both the overall housing market and the condominium-cooperative segment thereof involve vast

numbers both of dwelling units and of buyers and sellers. As Dr. Brimmer will tell you, in any market of size, no one buyer or seller can significantly influence supply, demand, or prices. We operate in such a market. We must take the existing demand for ownership housing as a given. We represent only a tiny part of the total supply. We do not determine the prices of our units -- the marketplace does. If we do not price our product in accordance with what the marketplace dictates, we will quickly be out of business.

It is also worth noting that whenever we convert a building, we are adding to the supply of apartments available for ownership. However small our company's contribution may be relative to the total marketplace, it is an economic fact that increasing the supply of a commodity relative to demand for it tends to hold down the price of that commodity.

This last point is pertinent to critics who charge that condominium conversion drives up the price of other housing in the vicinity. Since we sell in a highly competitive market, we cannot drive prices up -- we must sell at what the market dictates. If we could have any effect on prices at all, it would

be downward, since we are adding a fresh supply of apartments to the ownership housing market.

Why then do certain people continue to charge that condominium conversion causes inflation? It is because of two primary confusions. First, they misconceive the product that we are selling and the market in which we operate. Second, they confuse the pricing of a particular product with the phenomenon of inflation in our economy.

The first confusion is easy to dispel. Someone might say, look at building X, which you have just converted. A tenant in a certain apartment was paying \$350 per month rent before the conversion. If he buys his apartment, he will have to lay out a downpayment, and in addition will have monthly outlays for mortgage principal and interest, real estate taxes, and maintenance assessments which substantially exceed \$350.

All of that may be true. However, as a renter, the tenant was buying only housing services -- the right to occupy the apartment for a limited period of time. As an owner, he has purchased an asset. While that asset still provides the right to occupy the apartment, it not only provides that right permanently but also



carries with it all the other attributes of ownership of property and capital. To compare the monthly outlays attributable to ownership of an asset with monthly outlays to acquire limited housing services is to compare apples and oranges.

But the fallacy goes further. You cannot stop looking at the movie at the moment of conversion. If you continue to look at the picture for the next few years, you will discover some interesting facts. The tenant who bought his unit has locked in a major portion of his total housing costs. As he pays off his mortgage over the years, the price he paid for his apartment cannot change, no matter what happens to inflation. His down payment remains the same, and his monthly mortgage payments will remain the same. In fact, if inflation continues to be significant, he will be paying off that mortgage over time with increasingly cheaper dollars. True, real estate taxes and maintenance assessments can increase. But mortgage payments represent the biggest component of his overall monthly outlay. Even if he has a mortgage in which the interest rate is not fixed, the variation in total cost will be relatively slight.

Furthermore, if the tenant had remained a tenant, then over the ensuing years, his rent would not have remained the same. It would have continued to increase just like everything else in an inflationary economy. Our own studies have shown that over the first few years following a conversion, rentals have increased far more quickly than the total outlays of former tenants who purchased their apartments. The result is that within a relatively short period after conversion, the unit owner is going to be laying out less each month than he would have been laying out had he remained a tenant. The actual studies that prove this are being presented by Dr. Brimmer.

What I have just said becomes even more dramatic when we consider two additional factors. First, a large portion of the unit owner's monthly outlay is for interest and real estate taxes. Those items are deductible on his federal income tax return. The tax saved by those deductions decreases his real cost from the moment he purchases the apartment. Second, a part of each monthly mortgage payment is a retirement of principal on the mortgage. This is not an expense -- it is essentially an additional payment on account of the purchase price of the asset. And since we have been

in business, these assets have typically appreciated very substantially over time.

The other major fallacy which causes certain people to charge that conversions cause inflation is a confusion between the prices of particular commodities and the phenomenon of inflation in our economy. The same person who may think that a tenant's outlays for housing go up as a result of conversion of his building probably also thinks that this proves that the conversion contributes to inflation. The second proposition is as erroneous as the first.

If it were true that a particular tenant's outlays increased, albeit only temporarily, that would have nothing to do with inflation. Dr. Brimmer will explain to you that relative price movements of different goods or services are always occurring in a free economy. If the price of beef goes up, people may buy less beef and more pork. If an individual's total outlays for housing go up, he will necessarily spend less on other goods and services. All of this adjusts relative supply, demand, and prices of various goods and services, but it has nothing to do with inflation. Inflation is the result of overall monetary and fiscal policies and of people's expectations with regard to them.

In fact, it is inflation which provides a major impetus to condominium conversion rather than the other way around. The more people expect inflation to continue, the more they are motivated to become owners rather than renters of housing. As I noted before, purchasing an apartment locks in the largest element of cost and prevents it from rising no matter what the course of inflation is over time. The greater the rate of inflation, the cheaper become the dollars used to pay off the mortgage-financed part of the purchase price. Historically, the value of the asset itself has risen more quickly than the general rate of inflation. And as inflation pushes people into higher and higher tax brackets, the benefits of deductions for interest and real estate taxes become greater and greater. Little wonder that increasing numbers of people are coming to believe that ownership of a home may be their only significant protection against the ravages of inflation.

Certainly, it is to be hoped that inflation can be brought under control. If and when it is, ownership of one's own home will still be sought after and economically beneficial. Condominium conversion did not and does not cause or contribute to inflation. But as long as inflation continues at present rates,

inflation will continue to be a factor accelerating the pace of conversions.

## 2. Converter Profits

Another myth has to do with the profits earned by companies which convert rental properties to condominium or cooperative ownership. The argument goes something like this. A converter simply takes a building which is worth one amount and makes it suddenly worth a much larger amount by forcing people to buy the apartments at exaggerated prices. He then realizes the difference as an instant profit, which is undeserved because he has not added to the housing stock and has not performed any other function of utility to society. This argument is totally wrong.

As I have already said, we operate in a marketplace in which there is a demand for ownership of housing. We provide a new supply of that housing. And we do not set the price for either the building that we buy or the individual apartments that we sell -- the marketplace does. Our profits are simply the difference between the revenues we derive from sales at prices set by the market and the total costs we incur in the process.

I am not going to repeat what I previously said about the skills and risks associated with our business. Both are extremely high. And a company possessing these skills and willing to take these risks performs a very valuable function. That company changes the form of a product, upgrades it physically, makes it available for a different economic use, and satisfies a demand that is relatively greater than the demand for the product in its previous form. The converter performs a function no different and no less valuable than any business which processes raw materials or semi-finished goods into a different form and satisfies a need and demand for the resulting commodity.

If condominium conversion were simple and riskless, everyone would be doing it, because there is certainly a great demand for ownership of housing. The fact that only a relatively few firms are doing it attests to the fact that it is neither simple nor riskless. And if the efforts of those few firms are to be called forth to perform the function, there must be a potential for profit. The prospect of profit is what motivates businessmen to put forth effort and take risk. The actual realization of profits tells us that

- 31 -

there is a demand and that we are satisfying that demand well.

The amount of profit a particular firm may earn is of course a function of many things. The greater the degree of skill and risk associated with the business, the greater the rate of profit necessary to motivate the firm to engage in the business. Once in the business, the firm's profit is a residual left after costs are deducted from revenues, and thus is influenced by many unpredictable factors dictated within the marketplace.

While there are thus no standards for determining what is a "proper" profit, it is unfortunate that there has been widespread misunderstanding about the profits of conversion firms such as American Invesco. It has been charged, in essence, that we buy a building for X, sell the apartments for 2X, and make a 100% profit. This is no more logical than claiming that a farmer who buys a calf for \$100 and two years later sells the cow for \$200 has made a profit of 100%.

Audited figures previously furnished this Subcommittee show that on all conversion projects in the aggregate which have been fully sold out, American

- 32 -

Invesco earned a net profit of 15.8%. That is hardly an astounding percentage by any standard, especially considering the risks involved.

I have already mentioned some of the costs we incur. Discounts and other benefits to tenants of the building claim a substantial share -- sometimes as much as 30% of the gross purchase price of a given apartment. There are the costs of physical refurbishment; rent loss and consequent operating deficits during the period the units are being sold; title, legal, closing, and related costs; interest on millions of dollars in each project for as long as it takes to sell the units; advertising and sales costs; costs of contract administration; to say nothing of the general overhead expenses of operating a company.

Nor should it be assumed that we make a profit on every project we do. We have taken millions of dollars of losses on some projects. The risks are great and the potential losses are great.

I have said for many years that the greatest profit in our business goes to the tenants who buy our apartments. At a building recently converted at 400 East 56th Street in Manhattan, eleven tenants who bought



their own apartments resold them almost immediately, realizing profits varying from 48% to 114% of the purchase price. While that episode is not entirely typical, our studies show that for all American Invasco projects converted within the last several years, tenants who bought their apartments have realized a substantial and continuing appreciation in the value of their apartments.

### 3. Non-Resident Owners

Another myth is that there is something wrong about persons who purchase condominiums but do not live in them, especially if those people are connected with the converter.

Since I am not an economist, I will let Dr. Brimmer explain the technical aspects of the matter. But as a businessman, I know several things from common sense.

First, let's do away with the inflammatory term "speculator." Suppose a man owns a rental building containing 100 apartments. He hopes to earn income from operation of the building, and hopes to be able to sell the building some day at more than he paid for it. The building is then converted to condominiums.

Another man buys one apartment in the building, hoping to earn income from renting it out and hoping to be able to sell it some day at more than he paid for it. Why is the second man branded a "speculator" any more than the first man? They are both doing exactly the same thing -- the first with 100 apartments, and the second with one apartment.

It has been charged that people like the second man are doing something wrong because they allegedly withhold from the ownership market a portion of the apartments in a given building and thereby drive up prices. Ironically, legislation was introduced in the last Congress to put a nationwide halt to all condominium and cooperative conversions for three years. Had the bill passed, you can rest assured that would have driven up the prices of all existing condominiums and cooperatives in a hurry.

It is also ironic that if critics believe that reducing the number of apartments available for sale to people who want to reside in them would drive up prices, they must believe there is a vigorous demand for such apartments. If that is so, then conversion is furnishing a sorely needed new supply to fill that demand. And if not every apartment in each converted

building is available for sale to a person who wants to reside in it, then the marketplace will call forth conversions of other buildings to fill the need.

Also, let's not overlook what is being done with the apartments owned by non-residents. These apartments are being rented out to third parties. In American Invesco buildings, many of these apartments are leased to the very tenants who resided there before the conversion, at rents subsidized by us or the owner under voluntary assistance programs or local law.

Critics of the conversion process charge that it shrinks the supply of rental housing (a charge that is exaggerated as I will explain later). Yet when a portion of the apartments in a converted building are retained as rental units, these same critics cry "foul" because the units are now owned by individual investors. I don't think these critics can have it both ways.

Finally, it is charged that ownership of condominiums by non-residents is particularly bad if those owners are connected with the converter. I am unable to follow the logic of this contention. Is it evil for officers or employees of General Motors to purchase the company's cars? If we at American Invesco

purchase apartments in the buildings we convert, it is because we have confidence in our product and believe that we are making a good investment. We are proud of the fact that those purchasers have often enabled elderly or disabled tenants to remain in their apartments for extended periods at rents they can afford.

#### 4. Displacement of Tenants

Another myth I want to address concerns the displacement of tenants in converted buildings.

Tenants are a very mobile group. The average tenant nationwide stays in place only two to three years and in some cities in some types of buildings, as many as 80% to 90% of the tenants may move every year. The 1976 Annual Housing Survey conducted by the U.S. Census Bureau and HUD found that 38% of all renters had moved into their apartment within the preceding year.

Our experience with conversions indicates that overall only about 20%-25% of the tenants move. Of those that remain, some buy and some continue to rent from persons who buy. This is of course an average. In some buildings, we have had practically no movement of tenants.

- 37 -

It is human nature that one of the hardest things in life is to have to make an important decision, especially one that involves a change in a way of life. I think this is why conversions tend often to generate a great deal of emotion. In all our projects we allow the tenants at least 30 to 90 days to make a decision whether to buy, and have allowed considerably longer in many cases. In many places, the law sets a period of time, and we allow that period or longer. Once the tenant has made his decision to buy, he has ample additional time to obtain mortgage financing and make all other arrangements for the closing.

Almost always, we have offered the tenants special price discounts and/or other benefits if they decide to purchase within a certain period. These other benefits have included decorating or appliance allowances, rental abatements, payment by us of the maintenance assessments on the unit for up to one year after purchase, and mortgage financing on advantageous terms.

We sometimes hear tenants claim that they feel unfair "pressure" to buy because of the limited duration of these discounts or other benefits. The practice of granting special concessions for limited periods is as old as merchandising itself.

- 38 -

We do recognize, however, that there are always going to be some tenants who simply cannot afford to buy. For those tenants, we have instituted a series of "voluntary assistance" programs to allow them to remain for extended periods and to help them find other quarters. A comprehensive description of these programs has been previously furnished to this Subcommittee. Our Company has shown particular concern and sensitivity to the problems of elderly tenants. I am proud of the fact that American Invasco was a leader in instituting these programs, well before state and local laws began dealing with the problems. Some such laws, in fact, are patterned after programs that we had pioneered.

##### 5. Shrinkage of Rental Housing Stock

It is also claimed that conversion is causing a major shrinkage in the nation's rental housing stock. First, this is not true, and second, if it were true, the remedy would be not to stop conversions but to create more rental stock.

As Dr. Brimmer will explain, the report released by the U.S. Department of Housing and Urban Development last year shows that for every 100 units converted to

- 39 -

condominiums, there is a net shrinkage of only five rental units relative to the demand for such units. This is because, of the 100 apartments converted, all but five are bought either by persons who rent them out to others or by persons who were formerly renters and have thus left the rental market. In the decade from 1970 to 1979, only 366,000 units in the entire nation were converted from rental apartments to condominiums or cooperatives. This represented only 1.3% of the number of rental apartments in the nation. When you consider that only 5% of that 1.3%, or about 18,000 units represents the shrinkage in the net available rental stock, you can see how insignificant the problem of shrinkage is and how the problem has been exaggerated out of all proportion.

There is indeed a shortage of all kinds of housing, especially rental housing in the center cities. But condominium conversions have not caused this problem. It exists because there is no longer any incentive to build or maintain multi-family dwellings for rental. Indeed, the largest loss of rental units is caused by abandonment of units which have become uneconomic. The problem should be attacked directly so as to

encourage the construction of new rental buildings and the rehabilitation of existing ones. Congressman Ashley will discuss with you ways in which government can promote those objectives.

VI. THE DETRIMENTS OF UNDUE  
GOVERNMENT INTERFERENCE

We applaud legislation which is reasonably designed to promote truthfulness and honest dealing or to provide reasonable protections to tenants. As I have mentioned, American Invsco instituted programs relating to disclosures to purchasers and assistance to tenants unable to buy, many of which served as models for subsequently passed legislation. Because conditions vary widely from place to place, legislation at the federal level is not appropriate.

We oppose, however, government action at any level, which unreasonably impedes the operation of free markets. Condominium conversion is a healthy and beneficial response to genuine needs in the marketplace. Government ought to think long and hard about the consequences of interfering unduly with this process. We have lived through an era when every time a new problem or issue arises, a cry goes up for governmental action to solve it. I believe the mandate given by



the people of America in last November's election indicates that they have begun to see the error of this way and want to reverse the trend.

Laws that prohibit or discourage conversion are merely special interest legislation favoring those who oppose conversion to the detriment of those who want to own their own homes. Such laws are also blatantly discriminatory. No other form of real estate is subjected to such constraints on private property rights.

When government interferes in these ways with the orderly working of the marketplace, it distorts the allocation of resources, prevents the fulfillment of legitimate needs, and drives up costs and prices. Such interference will ultimately defeat the needs of the American people rather than serve them.

#### VII. WHAT THE GOVERNMENT CAN DO

Now I would like to mention some things that the federal, state, and local governments can do to help more Americans own their own homes.

The biggest factors shutting many Americans out of the market for condominiums and other ownership

housing are unavailability of funds for a down payment and inability to qualify for, obtain, and carry the necessary mortgage loan.

The Federal Home Loan Bank Board can be of help in speeding the approval of new types of mortgage loans making it possible for lending institutions to make profitable loans in this interest-volatile environment. In addition to loans where the return to the lender has some flexibility as interest rates change, serious consideration should be given to loans which permit smaller payments in earlier years of the loan, so that more borrowers will be able to carry the payments.

Local governments have the power to issue revenue bonds, the proceeds of which are used to provide mortgage loans to purchasers of housing units. Under conditions prescribed by federal law, the interest paid by the municipality is exempt from federal income tax and therefore the funds can be borrowed by the municipality at a lower rate and in turn loaned by it at a rate below what a borrower would otherwise pay. The conditions for tax exemption should be broadened by Congress, and municipalities should make greater use of this method to provide low-cost mortgage loans to older or handicapped buyers.

- 43 -

As I mentioned before, municipalities have been one of the direct beneficiaries of conversions. Increased valuations of the real estate for assessment purposes have produced significant increases in local tax revenues. It would be appropriate for the municipalities to apply some of this new-found revenue to assist more of its citizens to purchase condominiums, whether by way of mortgage loans, interest subsidies, temporary tax freezes on condominiums purchased by older or handicapped persons, or by other means.

#### Conclusion

I appreciate the opportunity I have been given to appear before you. I believe that if the process of condominium conversion is fully understood, it will be seen as a healthy response to a very real need in our society, which has had and will continue to have beneficial effects at many levels. I believe you will also agree that the process ought to be allowed to function unfettered by unreasonable government interference, and that the decision as to what legislation, if any, is needed, should be left to the state and local governments. Hopefully, measures will be adopted at both federal and state levels to encourage home ownership and make it available to more Americans.

STUART S. SCHWARTZ, D.C., SECRETARY  
JAMES C. HARRIS, JR., CLERK  
JAMES E. HARRIS, JR., CLERK  
JAMES E. HARRIS, JR., CLERK  
JAMES E. HARRIS, JR., CLERK

IN NINETY-SEVENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 2-277  
WASHINGTON, D.C. 20515

LLOYD WILLIAMS, CHIEF  
LLOYD WILLIAMS, CHIEF  
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LLOYD WILLIAMS, CHIEF  
LLOYD WILLIAMS, CHIEF

March 11, 1981

Mr. Nicholas A. Gouletas, Chairman  
American Invsco Corporation  
120 S. LaSalle Street  
Chicago, Illinois 60603

Dear Mr. Gouletas:

On March 30, 31, and April 1, 1981, the Commerce, Consumer, and Monetary Affairs Subcommittee will begin hearings into the public policy consequences of the national condominium and cooperative conversion trend, including an examination of the manner in which Federal agency policies, practices, and procedures impact this trend. In order to test the effectiveness, efficiency, and effects of Federal programs and practices, the subcommittee has, among other things, studied the conversion activities of American Invsco and other corporations.

Your testimony is requested on Wednesday, April 1, 1981, at 9:30 a.m. in Room 2154 of the Rayburn House Office Building. It should be responsive to the following:

1. Describe the activities and operations of American Invsco Corporation and affiliated companies (hereinafter AIC) in converting rental housing units to cooperative or condominium ownership. In this connection describe, specifically, the role played by affiliated companies in the purchase, conversion, sales of units in, and management of converted buildings.
  - a. Provide a list of all AIC conversions with the location, the number of units in each building, and the dates of conversion. Discuss future conversion plans.

For each AIC conversion from January 1, 1975, to date:

- b. Provide the number of units purchased by existing tenants. If this data is not available, provide an approximate number or percentage.

- c. Provide the number of units purchased by each of the following: members of the Gouletas family, persons employed by AIC, and persons who regularly invest in AIC buildings.
  - d. Provide the number of units purchased by others.
  - e. State whether any building purchased contained units which were subject to rent control or rent stabilization at the time of purchase and identify such buildings.
  - f. State, if known, whether and the extent to which any building purchased was unprofitable as a rental building.
  - g. Describe the results and furnish the subcommittee with copies of any studies performed by or for AIC, which deal with the displacement of tenants in AIC-converted buildings.
2. One of the subcommittee's primary interests is in determining the extent to which the conversion process impacts on rising housing costs and on inflation; and the role of federally regulated financial institutions in this process. Accordingly, please describe the nature of the financing process utilized by AIC for the purchase, conversion, and end-sales of each property listed in 1.a. above.
- a. Describe AIC's relationships with banks and thrift institutions in financing conversions. Your response should include answers to the following: What specific types of documents and information does AIC furnish to financial institutions? Do the documents specify projected costs of purchase and conversion, sell-out totals, etc.? Are inflationary impact statements and/or tenant protection proposals required? Are limitations imposed by financial institutions on the sales of units to investor/speculators? Are there meaningful differences in dealings with federally-supervised as opposed to state-supervised financial institutions?
  - b. State the number of and specify the instances in which AIC paid a rate of interest in excess of the then prime rate for the purchase money loan to buy and convert the buildings described in 1.a. above.
  - c. Specify the number of instances in which AIC paid a fee to a bank or thrift institution to obtain a commitment for end-loan financing for the purchase of units in buildings described in 1.a. above; and, set forth the total aggregate amount paid for all such end-loan commitments.
  - d. Specify the instances in which AIC's commitments for end-loan financing provided, in addition, for "points" to be paid by the purchasers of units.
3. a. In your view, what is the impact of conversions generally on rising housing costs? For example, can a conversion affect the costs of housing in the surrounding neighborhood? If so, how?

- b. To what extent does a conversion affect the cost of residing in a unit in a converted building? In this connection, describe the typical percentage increase in total monthly payments as a result of change in ownership from rental to condo or coop ownership in the Promenade building, recently converted by AIC.
  - c. What is the approximate percentage increase, in AIC converted buildings, in rental costs to persons occupying units purchased by non-occupant investors, over the pre-conversion rental price.
- 4. What is AIC's policy with respect to selling units to speculators who do not reside in the units but purchase them for investment purposes?
  - a. What percentage of sales in AIC conversions are made to investors?
  - b. Does AIC's sales policy comport with the requirements of the Federal Home Loan Bank Board, mortgage insurance companies, and the secondary mortgage market institutions, in making sales to investor-speculators?
  - c. To what extent have mortgages on units in converted buildings been purchased by the Federal Home Loan Mortgage Corporation and/or the Federal National Mortgage Association?
  - d. Describe your activities and, to the extent you know, the activities of members of your family and AIC employees in buying units in AIC converted buildings. In this connection, while AIC, through its attorneys, advised the subcommittee that apartment units in the Promenade Building in Bethesda, Maryland, would not be sold to non-occupant investors, a number of AIC employees and others appear to be investor-purchasers. Are all of these employees and the others residing at the Promenade?
- 5.
  - a. In your view, does speculation in units in buildings converted by AIC contribute to rising housing costs and housing inflation?
  - b. Should anything be done to reduce such speculation? For example, should mortgage loans to investors be prohibited? Should tax deductions to investors be denied or reduced? Should the mortgage loan-to-value ratio for owner-occupied and investor purchased units, be more favorable to owner-occupants?
  - c.
    - i. In your experience in the real estate industry generally, do you agree with the widely-held view that in condo and coop buildings owner-occupiers are preferable to renter-occupiers in terms of risk of default and in attitudes and behavior conducive to improving property values?
    - ii. In your dealings with mortgage insurance and lending institutions, what have you found their attitudes to be on the preferability of owner-occupiers to renter-occupiers in converted condo and coop buildings?
- 6.
  - a. Describe the nature and composition of the costs and expenses of completed and uncompleted conversions described in 1.a. above.

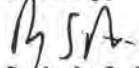
Separately, for all (i) completed and (ii) uncompleted conversions, set forth the aggregated cost to date of (1) non-cosmetic rehabilitation and repair of the structures involved, (2) advertising and other marketing expenses, (3) legal expenses, (4) cosmetic rehabilitation, (5) financing costs, and (6) AIC administrative and overhead costs not already included.

- b. Set forth the percentage of each cost described above, paid to companies, partnerships, and persons affiliated with AIC.
- 7. a. Describe the typical management arrangement entered into by AIC with the condo or coop association for the management of the building. And set forth, as to each building described in 1.a. above, the financial arrangements and terms of any management contracts.
- b. List and describe any other leases (including recreation leases) between AIC and the condo or coop association for the buildings described in 1.a. above.
- 8. a. In converted buildings, for what period of time does AIC effectively control the Boards of building associations?
- b. Have any groups or individuals on such Boards complained to AIC or instituted law suits objecting to the nature of AIC's control of such Boards?
- c. Describe other lawsuits brought against AIC or any affiliate in connection with any conversion undertaken by AIC.
- 9. What are AIC's policies with respect to displacement of elderly or handicapped tenants?
  - a. How does this policy compare with the policies utilized by others in the conversion industry?
  - b. In your view, what is the appropriate and necessary level of local, state and Federal involvement to protect the elderly from hardship due to displacement resulting from conversions?
- 10. a. Explain the purpose of using blind trusts to purchase or hold AIC properties in Illinois.
- b. Do you, or, to your knowledge, do members of your family utilize blind trusts to personally own units in buildings converted by AIC?
- 11. a. Has AIC ever filed reports with the Council on Wage and Price Stability?
- b. Has AIC or any component thereof ever been out of compliance with the Council's profit-margin guidelines?
- c. Has AIC ever filed reports with the Securities and Exchange Commission relative to cooperative sales?

12. In negotiating for the purchase of a building for purposes of conversion has AIC ever represented to the building's owner an intention to sell units at a price per square foot lower than the price actually charged after conversion? Set forth each such instance.
13.
  - a. What is AIC's policy with respect to sales of apartments at tenant-discount prices to persons who do not reside in the building? If such discount sales have been made, provide details.
  - b. To what classes (i.e., employees, family, etc.) of persons are such sales made?
14.
  - a. Describe AIC's relationship with Thomas M. Tully, the former Cook County tax assessor. In this regard, describe each instance in which Mr. Tully or his surrogates purchased a unit in an AIC building.
  - b. Has AIC ever sold a unit in a building converted by AIC to Mr. Tully at a discount price?
  - c. Has AIC ever entered into a purchase agreement with Mr. Tully or his surrogates without requiring payment of a percentage of the purchase price at the time of contract signing? Please explain.
  - d. Does AIC permit Gouletas family members, AIC employees, or others to enter into purchase agreements for units in AIC converted buildings without requiring payment of a percentage of the purchase price at the time of contract signing? If so, provide details.

Please supply 75 copies of your written testimony to the subcommittee no later than March 26, 1981. If you have any questions, please contact the subcommittee staff at 202/225-4407.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:jb





March 31, 1981

Chairman Benjamin S. Rosenthal and  
Members of the Commerce, Consumer  
and Monetary Affairs Subcommittee  
Committee on Government Operations  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman Rosenthal and Members of the Subcommittee:

On March 11, 1981, you wrote to me as Chairman of American Invsco Corporation, requesting my testimony before your Subcommittee on April 1, 1981, and asking that the testimony be responsive to the 63 questions and subquestions contained in that letter.

The Company is simultaneously filing copies of my written testimony, as well as copies of the written testimony of Thomas Ludlow Ashley and Andrew F. Brimmer, both of whom will be testifying with me as part of the American Invsco panel. In large part, the inquiries contained in your letter are addressed by this written testimony. In some cases, the information has been previously furnished; in others, it will be furnished below; and in yet other cases, the information falls within the categories which it was agreed by the full Committee last December would not be required of the Company.

The following responds specifically to each of the numbered paragraphs and subparagraphs of your March 11 letter:

1. The activities and operations of American Invsco Corporation and affiliated companies in the conversion process are described specifically at pp. 9-16 of my written testimony, and generally throughout the

March 31, 1981  
Page Two

balance of the statement. The American Invesco group of affiliated companies collectively performs all the necessary functions in connection with the conversion process. Various functions may be allocated among separate legal entities, but the functions performed and the costs incurred by all the companies collectively are no different than they would be if only a single corporation were utilized. The "Summary of Project to Date Sales and Costs" for completed projects and projects in process supplied to the Subcommittee last October, together with the annual profit and loss figures for Home Marketing of America, Inc. and the Acquest Group (USA) Incorporated, supplied last November, cover all of the revenues, costs, and profits associated with the conversion process.

1a. A list of all AIC conversions has previously been furnished to you. The number of units in each project and the respective dates of conversion are contained in Exhibit 1 attached hereto.

1b. Regarding the extent to which apartment units in converted buildings are purchased by existing tenants, please refer to pp. 36-38 of my testimony. The actual number of tenants who purchase varies widely from building to building, and no fixed number can be given.

1c-d. Please refer to Exhibit 2 attached hereto. We furnished to the Subcommittee last November a confidential listing of all purchasers of apartments in American Invesco converted projects. To the extent that the information requested in Paragraph 1c. and d. is not contained in Exhibit 2, it is disclosed by said listing.

1e. In a relatively few cases, a property purchased by the Company contained units which were subject to rent control or rent stabilization. We are unable to identify all such buildings at this time. As

March 31, 1981  
Page Three

you are already aware, however, the two projects converted by the Company in New York City at 900 Park Avenue and 400 East 56th Street were subject to rent stabilization at the time of acquisition.

1f. We furnished to the Subcommittee last October all operating statements in the Company's possession relating to the operations of any building as a rental property prior to our acquisition thereof. As pointed out at pp. 10-11 of Arnold & Porter's letter to you dated November 26, 1980 concerning compliance with the subpoena, we do not in all instances receive such operating statements from the prior owners of the buildings. Further, I refer you to pp. 7-8 of my testimony which stresses that the return to the owner of a rental property must be viewed in the context of alternative returns available on other forms of investment.

1g. Studies performed on behalf of AIC with respect to certain AIC-converted buildings are presented by Dr. Brimmer at pp. 96-101 and Table 26 of his written testimony.

2a. As you know, AIC borrows funds to help finance the costs of acquisition and conversion of its projects, and further, it obtains in many instances commitments from financial institutions to make mortgage loans to the individual purchasers of the apartment units. The details of the business transactions between AIC and its lenders constitute confidential and competitively sensitive information. AIC believes, however, that the documents submitted in support of its applications for financing are typical and customary for transactions of the type involved. We are not presently aware of any meaningful difference in dealings with federally-supervised as opposed to state-supervised institutions.

March 31, 1981  
Page Four

2b-d. As stated above, the specific terms negotiated between AIC and its lenders constitute confidential and competitively sensitive information.

3a-c. This subject is dealt with at pp. 51-65 and 89-95 of the written testimony of Andrew F. Brimmer.

4. As explained in my written testimony, AIC offers its product in a free market to any purchaser who is able and willing to buy.

4a. As explained at pp. 65-71 of Dr. Brimmer's testimony, one cannot necessarily draw sharp distinctions so as to characterize certain purchasers as "investors." To the extent any such characterization is possible, the answer to this question would vary from project to project and it is impossible to make any generalization.

4b. To the extent that any of the cited requirements may be applicable in a given case, AIC's sales policies are consistent with such requirements. It should be noted that relatively few AIC projects have involved secondary mortgage market institutions. It should also be noted that many, if not most, of the requirements referred to in this subparagraph relate exclusively to the relationship between the individual purchaser and the lending institution dealt with by him, or between that lending institution and the secondary mortgage market institution.

4c. FHMA has purchased some mortgages in 11 American Invsco projects, and FHLMC in 13 projects. In two of those instances, FHLMC approval was obtained after the conversion was completed and the Company was not involved in the qualification.

4d. Purchases by myself, members of my family, and AIC employees, are described or referred to in response to Paragraphs 1c. and 1d. above. It has

March 31, 1981  
Page Five

been our policy at the Promenade not to sell to persons who do not intend to occupy the units. Each purchaser represents in his purchase agreement that he intends to occupy. Our attorneys, however, have informed us that sales to persons who do not intend to occupy are totally legal and proper, and I understand that this is consistent with the letter dated November 19, 1980, from the SEC to the Subcommittee.

As far as I know, only nine Company employees -- all of whom have been involved in the sales program -- have purchased or contracted to purchase units at the Promenade. One of the employees has his sister and brother-in-law living in the unit. Another was the project manager of the Promenade until last November. His unit is still furnished but vacant since he is now in Chicago. And of the remaining seven employees, six live in the building and one intends to move after she closes on her unit.

5a-b. Please refer to pp. 89-95 of the testimony of Andrew F. Brimmer.

5c. We disagree with the premises apparently underlying the statements made in this paragraph. Purchase of units by persons who rent them to third parties is a normal and healthy marketplace response, and in addition performs a valuable social function of making units available for rental to those who are unable or unwilling to buy.

6a. The detailed data called for by this subparagraph constitutes confidential and competitively sensitive information which the full Committee agreed on December 2, 1980 would not be required of the Company. The types of costs typically incurred in a conversion are described at pp. 8-13 and 23-26 of my testimony.

6b. Please refer to the response to Paragraph 1 above.

March 31, 1981  
Page Six

7a. Copies of all management agreements entered into by AIC in connection with converted buildings were furnished to the Subcommittee last October.

7b. AIC does not enter into recreation leases with respect to any of its projects. Copies of any other leases referred to in Paragraph 7b. have previously been furnished to the Subcommittee.

8a. Election of directors of a condominium association is governed by the provisions of the condominium documents in each case. Typically, after 35-50% of the units in a building have been sold (the exact number depending on the building), an election is held at which the unit purchasers are able to elect one-third of the Board of Directors. Within 12 months thereafter, another election is held at which the unit purchasers are able to elect two-thirds of the Board of Directors.

8b-c. Confidential information concerning all project-related lawsuits against the Company was furnished to the Subcommittee last October.

9. A comprehensive summary of the Company's voluntary assistance programs for certain classes of tenants was furnished to the Subcommittee on October 29, 1980.

9a. I am not aware of the specifics of the assistance programs other firms in the conversion industry may have.

9b. We believe that the matter of condominium regulation generally and assistance of certain classes of tenants in particular should be left to state governments, which are better able to deal with conditions which vary from place to place. We applaud those state laws which provide reasonable assistance to the elderly and others -- laws which in many cases have been

March 31, 1981  
Page Seven

patterned after assistance programs which had been previously voluntarily instituted by our Company.

10a-b. As you were advised at pp. 11-13 of the Arnold & Porter response dated November 26, 1980 to the Interim Staff Report, neither AIC nor members of our family uses "blind trusts." The letter pointed out one type of situation in which the Company had some years ago used Illinois land trusts for convenience in holding title to certain unsold units. These were units which the Interim Staff Report erroneously referred to as held in blocks by investors. Those of the units listed on Exhibit 2 which are held for my children and which are located in Illinois are also held in Illinois land trusts. The Illinois land trust is a well-established form of ownership under Illinois law. There are hundreds of thousands of properties in Illinois which are held in this type of trust for a variety of lawful purposes, a substantial majority of which are residential properties of four units or less.

11a-b. AIC did not file reports with the Council on Wage and Price Stability, because the filing of such reports was voluntary and to our knowledge, no request for any such reports was ever received from COWPS.

11c. As you were advised by the letter to you from the SEC dated November 19, 1980, AIC has not been required to file any reports with the Securities and Exchange Commission relative to cooperative sales because such sales do not involve a security within the meaning of that law.

12. Negotiations for the purchase of buildings are conducted by AIC at arms-length with the owners of such buildings, and such owners are generally very sophisticated businessmen who are aware of the potential value and uses of their properties.

March 31, 1981  
Page Eight

13a-b. At the present time, persons employed by the Company may be allowed to purchase apartments in converted buildings on the same terms as the residents. In a few cases, members of the public have been allowed for limited periods to purchase on the same terms as the residents.

14a-c. The purchases of condominium units by Mr. Thomas M. Tully have been described in a memorandum attached to the letter of November 26, 1980 from Arnold & Porter to the Subcommittee.

14d. On numerous occasions, earnest money deposits have not been required of AIC employees, Gouletas family members, and outsiders.

Very truly yours,

AMERICAN INVSCO CORPORATION

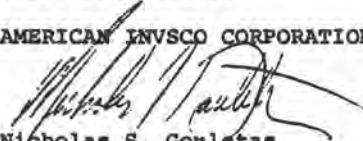
  
Nicholas S. Gouletas  
Chairman of the Board



Exhibit 1AMERICAN INVSCO PROJECTS

<u>Project</u>	<u>Conversion Announcement Date</u>	<u>Number of Units</u>
360 Wellington, Chicago, Illinois	3/73	100
2400 Lakeview, Chicago, Illinois	10/73	262
Regency House, Milwaukee, Wisconsin	1/74	188
1 East Schiller, Chicago, Illinois	4/74	78
Burton Place, Chicago, Illinois	6/74	24
Fountain Terrace, Skokie, Illinois	7/74	24
Plaza on DeWitt, Chicago, Illinois	5/75	407
336 Wellington, Chicago, Illinois	2/76	36
Outer Drive East, Chicago, Illinois	2/76	417
Harbor House, Chicago, Illinois	2/76	278
100 East Bellevue, Chicago, Illinois	7/76	171
2626 Lakeview, Chicago, Illinois	9/76	487
Willowick, Houston, Texas	4/77	141
Carriage Hill of Arlington, Columbus, Ohio	5/77	141
Georgetown of Grand Rapids, Grand Rapids, Michigan	5/77	251
Summit Chase, Columbus, Ohio	7/77	178
Bayou Woods, Houston, Texas	7/77	208
Georgetown of Nashville, Nashville, Tennessee	10/77	240
Imperial Towers, Chicago, Illinois	10/77	862
Inwood Manor, Houston, Texas	10/77	136
Sheridan Shores, Chicago, Illinois	10/77	74
Parc Towers, Houston, Texas	1/78	196
Royal Oaks, Nashville, Tennessee	1/78	86
Windsor Tower, Nashville, Tennessee	4/78	136
Oaks of Woodlake, Houston, Texas	4/78	556
3800 Lake Shore, Chicago, Illinois	5/78	95
Galt Tower, Ft. Lauderdale, Florida	7/78	261
Turtle Creek North, Dallas, Texas	7/78	116
Winton Place, Lakewood, Ohio	9/78	351
Golf Towers, Des Plaines, Illinois	10/78	174
3100 Grand, Des Moines, Iowa	10/78	65
Royal Ambassador, Ft. Lauderdale, Florida	11/78	214
Embassy House, Denver, Colorado	11/78	77
Hollywood Towers, Chicago, Illinois	12/78	541

Project	Conversion Announcement Date	Number of Units
Village Lake, St. Petersburg, Florida	1/79	346
Barrington, San Antonio, Texas	1/79	81
Carlyle, Lakewood, Ohio	1/79	546
Addison Lake Shore, Chicago, Illinois	2/79	56
Park 900, New York, New York	4/79	124
Two East Oak, Chicago, Illinois	4/79	304
Grosvenor, Rockville, Maryland	5/79	1051
Carol, New Orleans, Louisiana	5/79	155
Park Lane Towers, Denver, Colorado	6/79	347
Chatham Village of Memphis, Memphis, Tenn.	7/79	265
Plaza Towers, Atlanta, Georgia	7/79	170
Cheesman Tower, Denver, Colorado	8/79	72
Northview Towers, San Antonio, Texas	8/79	125
Georgetown of Philadelphia, Pennlyn, Pa.	9/79	269
Aspen Ridge, Des Moines, Iowa	11/79	199
Executive, Miami Beach, Miami	12/79	99
191 Presidential, Bala Cynwyd, Penna.	1/80	237
Claridge House, Verona, New Jersey	1/80	275
3600 Pine Grove, Chicago, Illinois	2/80	55
21 Turtle Creek, Dallas, Texas	2/80	358
Surfside, Chicago, Illinois	4/80	189
Park Tower, Birmingham, Alabama	5/80	107
Fountain Square of Germantown, Memphis, Tennessee	6/80	276
333 Meyers, Kansas City, Missouri	6/80	136
Hunter's Ridge, Farmington Hills, Mich.	6/80	487
Promenade, Bethesda, Maryland	7/80	1072
Plaza 400, New York, New York	7/80	628
Cherrywood Village, Brown Deer, Wisc.	8/80	146
West Grand Tower, Des Moines, Iowa	9/80	83
Chatham Village of Towamencin, Lansdale, Pennsylvania	10/80	330
Highland Towers, Niles, Illinois	10/80	327
Beaver Hill, Jenkintown, Pennsylvania	10/80	471
Regency Towers, Hartford, Connecticut	2/81	127

Exhibit 2

<u>Name</u>	<u>Number of Units Purchased</u>	<u>Period of Time Over Which Units Were Purchased</u>	<u>Number of Units Sold</u>
Nicholas S. Gouletas	7	5 years (1973-1979)	1
Trusts for the Six Children of Nicholas S. Gouletas	63	8 years (1973-1981)	0
Victor W. Goulet	1	Bought-1975, Sold-1978	1
Evangeline Gouletas	18	7 years (1973-1980)	8
All Other Members of the Gouletas Family	108 */	8 years (1973-1981)	26
Totals	197		36

\*/ Includes 11 units purchased by Evangeline Gouletas which were subsequently transferred to her daughter.

Mr. ROSENTHAL. Our next panel of witnesses is other nationally oriented converters, Mr. Robert Sheridan, Mr. Harold Miller, and Mr. Geoffrey Stack.

I want to apologize to you gentlemen for delaying you so long. It is one of those things which somehow gets out of control.

Would you begin, Mr. Sheridan.

Again, I want to restate our appreciation to you for appearing here and making what I expect to be a significant contribution.

**STATEMENT OF ROBERT SHERIDAN, COCHAIRMAN, NATIONAL MULTI-HOUSING COUNCIL, CHICAGO, ILL.**

Mr. SHERIDAN. Thank you, Mr. Chairman. You are very kind.

Mr. Chairman and members of the subcommittee, my name is Robert Sheridan. I am managing partner of Robert Sheridan and Partners. We are based in Chicago, Ill. I am currently serving as cochairman of the National Multi-Housing Council.

Seated with me are Mr. Geoffrey Stack, who is president of Regis Homes, Inc. of California and director of the Multi-Housing Council, and on his right Mr. Harold Miller, chairman of the board of First Condominium Development Co., based in Chicago, whose company is also a member of the National Multi-Housing Council. On my left is Mr. Timothy Vandevere, Jr. of Patton, Boggs & Blow and Mr. Richard Francis who is the executive vice president of the Multi-Housing Council.

As some of you know, the National Multi-Housing Council is a nationwide trade association of developers of condominiums, cooperatives, and owners of significant multifamily rental housing.

Part of our purpose is to present the views and concerns of our membership, to provide a forum for discussing what are often diverse views and concerns, and to provide the public, as we are pleased to do today, with the most accurate and up-to-date information concerning condominium development and conversion.

For the convenience of the subcommittee, Mr. Chairman, we will present a summary of the written statement of the Multi-Housing Council.

Mr. ROSENTHAL. Without objection, the full statement shall be included in the record.

[The statement of the National Multi-Housing Council follows:]

Testimony of

ROBERT SHERIDAN, CO-CHAIRMAN  
NATIONAL MULTI-HOUSING COUNCIL

Before the Subcommittee of Commerce, Consumer and Monetary  
Affairs of the Committee on Government Operations  
United States House of Representatives

Hearings on

Condominium and Cooperative Conversions

April 1, 1981

Mr. Chairman, members of the Subcommittee, my name is Robert Sheridan. I am managing partner of Robert Sheridan and Partners in Chicago, Illinois, and am currently serving as Co-Chairman of the National Multi-Housing Council. It is in that latter capacity that I appear before you today.

The National Multi-Housing Council ("NMHC") is a nationwide trade association of developers of condominiums and cooperatives and owners of multi-family rental housing. Our purpose is to represent the views and concerns of our membership, to provide a channel for discussing those often diverse views and concerns, and to provide to the public, as we are happy to do today, the most accurate and up to date factual information concerning condominium development and conversion.

Before I proceed further, I would like to introduce the other witnesses seated with me. Mr. Harold Louis Miller, a member of NMHC, is Chairman of the Board of the First Condominium Development Company in Chicago. Also appearing with me is Mr. Geoffrey L. Stack, a Director of NMHC and President of Regis Homes, Inc., Newport Beach, California.

Mr. Chairman, let me first express my disappointment at the obvious bias of the earlier panels allegedly representing tenants or tenant organizations, and the systematic exclusion of people who have lived through the process of conversion, and who have experienced living as condominium owners and holding positions of leadership as directors of condominium associations. They could provide this Subcommittee with their views based on several years of experience, and not several weeks or months of perceptions. Anyone listening to the testimony of the tenant groups who testified would come away with a stilted and inaccurate view of condominiums. I have attached just a few letters and newspaper articles to the statement of Robert Sheridan & Partners, which are representative of happy satisfied condominium owners. Unfortunately, they cannot have the impact of vocal testimony, for it is impossible to unring a bell.

I do not mean to minimize, in any way, the personal trauma suffered by some individuals in that process. I know how they feel; I have talked to many of them face to face, and I've worked with them to resolve their problems. But we are aware of any number of people who have lived through the conversion of their buildings from rental status to condominiums and were happy with the process. The experiences of these people should have received equal time because they could describe how solutions can be, and have been, found to problems without having to resort to a broad brush approach that threatens to throw the baby out with the bath water.

Mr. Chairman, I would like to submit for the record, a copy of a study conducted by HUD entitled The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes and Effects. I will refer several times to the findings of this study in my testimony. It is the most recent and in-depth empirical study of the subject, and, contrary to what was anticipated in some quarters as to its conclusions, is a very positive statement about condominium and cooperative conversion, confirming what we in the industry have known from a "gut" sense all along.

The National Multi-Housing Council is concerned with housing needs in our modern society. We are concerned about higher mortgage interest rates, dwindling housing starts, inflation, and the frustration and despair felt especially by first time home buyers who face those problems, frequently unsuccessfully, when trying to enter the housing market.

Mr. Chairman, there is overwhelming evidence that condominium development is beneficial to purchasers and to the community. As with any other major program or project, there are problems, but those problems are isolated. We believe you will find that the benefits of condominium development far outweigh any problems, and that local communities are able to deal with those problems in a manner that responds to local issues with local solutions.

We feel that condominiums help to mitigate the impact of those economic problems for many people who want the benefits of homeownership, but would not have that opportunity were it not for condominiums. Today's median price for a new single-family home

is nearly \$65,000, up 134 percent from 1972. The median price for a condominium is \$58,000, and thus, condominiums are much more affordable. (The prices for both will be lower in some areas, and higher in other areas.) For very small households (and as you know, Mr. Chairman, the average now is two children per family), condominiums are the perfect starter home. Single individuals and young couples can enter the homeownership cycle with a studio or one-bedroom unit--an option the single-family home market does not provide. In large metropolitan areas where available land is a problem, condominiums are often the only homeownership opportunity. Approximately 9 out of 10 condominium purchasers will tell you that they would purchase another condominium should they move from their present one.

#### BENEFITS OF CONDOMINIUM CONVERSION

##### Condominiums Preserve Existing Housing Stock

The numerous benefits of condominium conversion have a positive impact on local communities. The greater number of residential condominium conversions have taken place in major metropolitan areas and have helped to preserve and upgrade the housing stock in those areas.

Condominium conversions have been a significant factor contributing to efforts to revitalize blighted areas within our cities. In many instances, historically and architecturally significant structures have been preserved only because of condominium development. You might have noticed, here in Washington and in your



native New York, Mr. Chairman, the restoration of aesthetically magnificent older structures that had been neglected for many years.

The condition of most buildings converted to condominiums has been significantly improved. Though the majority of conversions have occurred in middle to upper income rental buildings, the fact is that because of the economics of operating rental properties, most of those buildings require major repairs.

Condominium developers have also converted substandard buildings located in areas undergoing revitalization, and have made them attractive, desirable places in which to live. Many of the buildings converted in revitalizing neighborhoods require substantial work on or replacement of heating or cooling systems, plumbing, wiring, elevators, and structural features. Some converted buildings were not previously residential, so those conversions have augmented the housing stock. After property is improved and sold as condominiums, it is more likely to be kept in good repair since condominium purchasers, as homeowners with a financial investment, tend to be more conscientious than tenants in a rental building about up-grading and preserving their property.

#### Condominiums Increase Property Tax Revenue

Property taxes provide a major income source for local governments. A number of those local governments are experiencing budget deficits as the needs of the community, translated into increased expenditures for almost every service and program, outstrip the

tax base. The increasing needs combined with the declining wealth of our urban population have contributed to the cities' budget crisis and urban decay. The lack of housing in our metropolitan areas has been a major factor in stripping the tax base because many people have left the cities and moved to the surrounding suburbs to find housing, taking jobs and spendable income with them. Finally, as the infusion of dollars into local communities is further decreased because Federal grants and other federally-assisted programs are being pared down to more austere levels, the financial problems of local communities will worsen. The question confronting them is-- where will the money come from?

Many local communities facing these problems have discovered that condominium conversion generates substantial additional tax revenue. The increase in value of condominiums over rentals is created not just because of the inevitable improvements and upgrading of units prior to sale as condominiums, but also because of the inherent benefits society has place on homeownership-- such as the benefits of interest and real estate tax deductions and equity which builds over time. Operating in a free market, those benefits increase the worth of a condominium to an owner-occupant beyond the worth of that same unit as a rental.

As an example of the tax increases cities can experience from conversions, one of my properties in Philadelphia, as a rental, yielded the city slightly under \$500,000 in real estate taxes in 1979, before it became a condominium. In 1981, the

owners of that building will pay \$2.4 million in property taxes. In addition, \$880,000 in transfer taxes was paid to the city, and an equal amount to the State, upon purchase by our affiliates. Sale and resale of the condominium units will provide between \$300,000 and \$500,000 per year in additional transfer tax revenue to the city and State.

This additional revenue can be used at the city's discretion to provide the citizens of Philadelphia with the services that are needed. The alternative means of generating revenue presented by condominium conversion can actually reduce the tax burden on those citizens who would suffer most if the city, otherwise, were to increase sales or other more regressive taxes which hit the poor hardest.

#### Condominiums Encourage Homeownership and Community Stability

According to the 1980 report I mentioned in my introductory remarks, sharp and sustained increases in the cost of more traditional single-family homes and the desire to gain a hedge against inflation has created the growing demand for homeownership. Due to the scarcity of land for new home construction, especially in urban areas, and the shortage of existing single-family homes, development of multi-unit condominiums provides the only opportunity for many renters to become homeowners.

According to the HUD study, almost 40 percent of all renters move at least once a year. Homeowners, on the other hand, bring a certain stability to the community because they have a vested financial interest in their property. On the average, turnover among homeowners is estimated at seven years, or 16 2/3% per year.

- 8 -

I will discuss the displacement issue more fully later on in my testimony, but I feel that it is important to note here that some people may perceive condominium conversion, at least in its initial impact upon the community, to be de-stabilizing, particularly in urban neighborhoods. The HUD study I mentioned earlier indicates, however, that condominium activity is not the primary cause of change in the overall socio-economic profile of central city neighborhoods. Where the profiles of former and new residents differ, the change is attributed more to the overall process of revitalization than to condominium conversion.

#### Condominium Availability Benefits Consumers

With inflation and high interest rates driving the cost of homes through the roof, the centerpiece of the American dream--homeownership--has become a remote, and for many people, unobtainable goal. Inflation has created, among those who can still afford to buy, what some have called a "gold rush" attitude towards homeownership--buy today because prices will be higher tomorrow. As a result, housing costs and interest rates are driven even higher.

According to HUD, the median cost of existing single-family homes rose 133 percent (from \$26,700 to \$62,100) between 1972 and 1980, and new single-family homes rose 134 percent (from \$27,600 to \$64,600). Compare those increases to the 97 percent increase in the cost of all goods and services measured by the Consumer

Price Index ("CPI").<sup>\*/</sup> During the 1972 to 1980 period, median family income rose 95 percent, less, as you can see, than single-family housing costs.

Condominium development and conversion has provided affordable homeownership opportunities and the only reasonable alternative to renting for a large segment of the population. Younger households, single and divorced individuals and middle income families, who otherwise would be excluded from the housing market because of the soaring prices of more traditional single-family homes have benefited from the condominium option. To illustrate this point, let me share with you some demographic characteristics of condominium owner-occupants:

• Fifty-seven percent of condominium owner-occupants are single persons, whereas only 14% of all homeowner-occupants nationally are single. Thirty-five percent of condominium buyers are single women, compared to 10% in the detached single-family home market nationally. This is a significant endorsement of condominiums by single women in this country. Condominiums are meeting the demands of the career-oriented, baby-boom generation who want the economic advantages of homeownership coupled with the

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<sup>\*/</sup> According to the Gross National Product (GNP) Deflator, goods and services for the same period rose 77 percent. The GNP Deflator has been recognized as a more accurate measure of inflation than the CPI.

- 10 -

convenience of living near employment centers.

Subtracting, 43% of this group may have remained renters were it not for conversions.

eTwenty percent of owner-occupants are over 55 years of age. This age group is not being shut out of the market.

eApproximately 10% of all owner-occupants of converted units are black, compared to 7% of all owner-occupants in the nation. The additional 3% of black homeowners may have remained renters were it not for conversions.

Condominiums afford an equally important housing opportunity to people referred to as "empty nesters", homeowners whose children are grown and have left the home. These households discover that what used to be a big home filled with the robust activity of children and friends, is now too large and expensive to maintain. Senior citizens who at one time could easily maintain a four-bedroom home, find it no longer enjoyable, if not impossible to do so. The move from a house to a condominium offers them a more care-free lifestyle, and puts their single-family house back on the market for purchase by larger families.

The almost universal experience is that a large number of buyers--perhaps even a majority--who buy during a conversion feel they don't want to buy, but the research shows that when surveyed a year or more after the fact, the overwhelming majority--something like 85% to 90%--are glad that they did. Further, they would have had a completely different initial reaction if they

knew initially what they learned through the process of becoming and living as a condominium owner.

A 1980 survey conducted by Louis Masotti for Northwestern University's Center for Urban Affairs questioned a sample of condominium owners in five cities. The respondents were asked about the investment value of their unit, building up-keep, neighbors, location, monthly assessments, and security, among other aspects of condominium living. The study concluded that nearly 86% of those surveyed were "very satisfied" or "completely satisfied" with condominium living.

Mr. Chairman, the advantages of condominium conversions are numerous. They have added another housing opportunity to the market and have given potential buyers another choice to consider in making a decision about purchasing a home.

The growth of condominiums, however, is a recent phenomenon that has not been without growing pains. The industry is continually adjusting to meet the needs of buyers and of those who choose not to buy.

Problems associated with condominium conversions have been more widely publicized than the advantages. I would like to focus on some of those problems which in my experience, can be real and painful for the people affected, but are not widespread.

Mr. Chairman, I don't mean to minimize the impact or the hardship experienced by some individuals affected by condominium conversion. However, the hardship cases constitute a smaller proportion of the total than they might first appear, and, in

many cases, can only be addressed by individually tailored solutions. Those cases should not be the basis for sweeping policy changes which reach beyond the scope of the problem. Solutions to any problems should be designed to address the needs of the individual and not to hamstring a process that provides benefits to so many citizens.

#### PERCEIVED PROBLEMS OF CONDOMINIUM CONVERSION

##### Loss of Rental Housing

Mr. Chairman, contrary to what many people might think, condominium conversions have not had a significant impact on the rental housing stock. The best information we have on this point comes from the HUD study which measured the volume of conversion activity over the past ten years.

Conversions of rental units and condominiums resulted in an average net loss of only 1,800 units nationwide per year over the last ten years. To the extent that residents of converted buildings buy their units after conversion or move out and purchase another unit or a single-family home, the net effect of conversions on the rental market is far less than the number of units converted. Furthermore, according to HUD, 37 percent of the residents in converted buildings are renting their units because, in many instances, they have been given the option to renew their leases indefinitely or are renting from a non owner-occupant or from the developer.



When you look at the volume of conversion activity nationwide as a percentage of the rental stock, you will see that only 1.3 percent of all the nation's occupied rental housing has been converted. In the twelve metropolitan areas in which conversion activity is highest,<sup>\*/</sup> that percentage is only 2.7 percent.

Rental housing stock may be impacted by condominium conversion, but by no means has it had the significant impact some would attribute to it. To properly assess the reduction of rental stock more completely, we must also take a look at the number of and reasons for many rental housing units being neglected, abandoned and boarded up, or demolished for alternative development. You might find that those losses contribute much more significantly to the reduction of rental housing units than does condominium conversion. Don't forget that many abandoned units have been placed back into the housing market as a result of condominium development.

#### Displacement

Probably the most vocally high-pitched outcries against condominium conversion concern the displacement of tenants who do not purchase their units. No condominium developer I know wants people to move. We would rather see existing tenants buy

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<sup>\*/</sup> Boston, Chicago, Denver-Boulder, Houston, Los Angeles - Long Beach, Miami, Minneapolis - St. Paul, New York City, San Francisco - Oakland, Seattle - Everett, Tampa - St. Petersburg, Washington, D.C.

if for no other reason than it reduces marketing costs. For this reason, most developers offer special discounts, the option to purchase a unit "as is", with a reduction in the purchase price, and other incentives to existing tenants.

While there have been some widely publicized instances of hardship due to displacement, HUD found that 82% of the tenants who moved found the same or better quality of housing at a like cost. This rebuts the widely held perception that conversions force most people out of converted rentals to rentals of lower quality at higher costs.

The most frequently expressed concern relates to the elderly and disabled tenants of a converted building. This concern is justified. These are the people who are most likely to experience some anxiety about the conversion because change generally can be very traumatic for older people. Many developers offer special assistance by setting aside a number of units as rentals for the elderly and disabled, special discounts, and for those who wish to move, relocation allowances and placement services. This varies from one jurisdiction to another. Some local governments, where they have found it necessary, have enacted legislation mandating these benefits. In other jurisdictions, developers undertake these special benefits voluntarily. However, long before local government enacted mandatory legislation, many developers voluntarily offered those benefits, and, in fact, provided a blueprint for legislative action.

Mr. Chairman, I believe that any responsible developer carefully considers the status of the elderly and disadvantaged when considering a plan to convert a building to a condominium. I am aware of the article you placed in the Congressional Record detailing a certain conversion in Duxbury, Massachusetts that involved elderly tenants. Let me say categorically that, based on the facts presented in that article, that situation did not present a proper subject for conversion. I speak on behalf of Mr. Miller and Mr. Stack and other responsible developers when I say that we would not have followed that course of action.

The impact of conversion on low income families, according to HUD, is not widespread because most of the buildings converted so far have been in rental buildings housing middle to upper income families. Most of the families displaced, therefore, are not in the lower income ranges. While I do not mean to underestimate the impact that conversion has on some individual hardship cases, such displacement is not pervasive.

#### Inflationary Impact of Conversions

Let us first examine what we really mean by "inflation". Is it inflation when an automobile costs more than a motorcycle, or when four acres of land cost more than two, or when a good sturdy pair of shoes costs more than a cheap pair that wears out quickly, or when a four-room apartment costs more than a two-room apartment? No! Inflation is the increase in the price of a

similar or identical article without an attendant increase in value. When a pound of hamburger costs more today than it did last year, that's inflation.

Now let's apply that analysis to condominium conversion. We have already said that a building which is converted into condominiums has a higher market value and tax assessment than it had prior to conversion. But, if that increase is the result of an increase in value, then the increase is not inflationary. We must, therefore, look at the increased benefits to owner-occupants to see if they reflect increased value. Converted condominiums are usually substantially upgraded in aesthetics, mechanical, electrical, and plumbing systems, as well as structural components such as roof, windows, and exterior skin. Condominiums provide the occupant with the opportunity to build equity rather than pay rent to an owner of the building. Additionally, the portion of a rent payment that covers debt service and real estate taxes provides absolutely no tax benefit to tenants. When a tenant becomes a condominium owner, he or she still makes a contribution to taxes and interest just as they did as renters, but this time they get to deduct those payments! Now those are changes that represent value of the owner. To the extent that value goes into determining the market price, it is clearly not inflationary.

Where inflation comes into play is in the ever-increasing costs of labor, fuel and materials. Since the construction costs of housing, whether single-family or multiple housing, is substantially affected by inflationary increases, the role

- 17 -

condominiums play with respect to inflation is clear: Victim. Condominium conversion reflects inflation, it does not cause it. Condemning condominiums for the evils of inflation is like shooting the messenger who bears the bad news.

#### "Speculative" Investment

What is one person's speculation is another person's bona fide investment. Every property buyer speculates to some extent when purchasing property; no one wants to buy property that, upon a future sale, will return less than the initial investment.

We must be cautious in evaluating perceived problems that result when buyers purchase a condominium unit with no present expectation of occupying that unit, because the need for maintaining a certain number of rental units for the elderly and disabled has been met, in large part, by lease extensions offered by investors. A recent advertisement in the Washington Post offered to investors a number of apartments which had been leased to the elderly for five years at a fixed rent. To the extent that one argues for more lease extension arrangements to help the elderly and handicapped, you are arguing that we need more investors.

The extent to which speculative investment occurs should not be overestimated, however. Fannie Mae and Freddy Mac's present rules place sharp limits on the extent of non owner-occupant purchases.

It is often stated that one is a speculator if he or she purchased a property with no present intent to occupying the

property. But, we find elderly persons residing in a condominium that has been purchased by their grown children. Although those children purchased the unit with no intention of occupying it themselves, can you call them speculators? Do you want to prohibit this type of ownership?

As a practical matter, deciding what is speculative investment and what is not, is a thorny problem. Every property buyer speculates to some extent when purchasing property. But we can see that a mix of owner-occupants and non owner-occupants is desirable.

#### Conclusion

Mr. Chairman, the Subcommittee has now heard almost three days of testimony on condominium development. We hope that you will put into proper perspective what you have heard from the tenants and tenant groups. There are many people who could tell you about the benefits condominiums and condominium living have provided them. There are many people who chose not to purchase their units that are happy with that decision and satisfied by the way they were treated. Please try to keep that in mind.

Looking at condominium development in isolation from the overall picture of housing in our society is like looking at the world through a very long tunnel. What we might be tempted to call a trend toward condominium development is really the trend toward homeownership. The percentage of housing owned by occupants has increased from 43.6% in 1940 to 64.6%

in 1975, with an accompanying decrease in rental housing from 56% to 35.4%. Yet, condominium development has taken place in any significant proportions only since the seventies. As you can see, condominiums did not create the demand for home ownership, they are a by-product of it.

We believe that condominium conversion has been beneficial to society as a whole, but recognize that the industry has not been without growing pains. As individual problems become identified and focused, responsible developers have dealt with them. As cities and counties have identified problems which occur in their locality, they have dealt with them, taking into account the nature and structure of the community and the needs of its citizens. We don't believe Federal legislation could be as responsive, and thus we recommend to the Subcommittee that you not take that route in attempting to resolve any problems you might perceive. I believe a broad brush effort designed to address problems and problem developers nationwide would hurt more than help the cause. What the Subcommittee should do is look at the real question, which is -- how do we create more affordable and better housing for our citizens? Thank you.

Mr. SHERIDAN. In addition, we would like to submit for the record a copy of the HUD study that has been referred to earlier in the day concerning the conversion of rental housing to condominium cooperatives; a national study of scope, causes and effects.

Mr. ROSENTHAL. We are not going to put those into this record. We have them. It would be burdensome and would probably cost a thousand dollars.

Mr. SHERIDAN. Obviously, that would be a duplication and was not the purpose of the request.

Mr. ROSENTHAL. They are all public documents.

Mr. SHERIDAN. Finally, I am submitting the statement of Robert Sheridan and Partners to be included in the record, with your permission.

Mr. ROSENTHAL. Without objection, that shall be put in the record.

[Mr. Sheridan's prepared statement follows:]

## SCHEDULE 1

THE IMPACT OF THE CONDOMINIUM CONVERSION PROCESS ON BUYERS AND THE CITYInflation and the Condominium Buyer

Chicago, like the rest of the country, is in the middle of a massive transition from rental to ownership in housing. From a nation of renters in 1940 we have become a nation of homeowners today. The shift from renters to homeowners is shown in Table 17.

The deteriorating economics of rental housing is the cause of the landlord's desire to convert. Conversion would not be feasible without unit buyers. The eagerness with which condominium units are sought by buyers reflects a fundamental change of attitude by the housing consumer. Apartment renters desire to become owners, and the condominium conversion phenomenon merely reflects that trend.

The reasons for the change of attitude are not hard to find. They include a growing conviction that home ownership is the ordinary person's best defense against inflation. Homeowners in recent years have fared far better than investors in stocks, bonds, savings accounts and other readily available investment media.

The only way an apartment tenant can keep up with today's roaring inflation in housing costs is to become an owner and purchase a house or a condominium.

Stocks, bonds and savings accounts are not an inflation hedge. From 1968 to 1978, while the Consumer Price Index was climbing 87%, the Dow Jones industrials average sagged 10% from 906 to 814. Investors who counted on common stock equities to protect them against inflation lost out. So did bondholders, who watched the principal value of their bonds eroding each year enough to offset any interest earned--and then had to pay income tax on the interest unless the bonds were tax exempt. Savings account holders paid the same penalty. So did owners of other interest-bearing securities such as treasury notes, savings certificates and certificates of deposit.

Only homeowners as a class were able to keep up with inflation. They not only saw their home values keeping pace with the increase in prices generally, but also benefited from substantial percentage gains in the value of their original cash investment. As Table 18 makes clear, a \$50,000 house purchased with a \$10,000 down payment ten years ago, for example, may have appreciated to \$100,000 today, a gain of 100% over ten years, which works out to an annual gain of 7.18% compounded, roughly equivalent to the inflation rate over the same ten years. But without even allowing for the substantial reduction of principal on the mortgage over that ten-year period,



TABLE 17  
 \* OCCUPIED HOUSING UNITS BY TENURE  
 U. S. TOTAL, 1975  
 (Units in thousands)

Year	Total Occupied Units	Owner Occupied		Renter Occupied	
		Number	Percent	Number	Percent
1940	34,855	15,196	43.6	19,659	56.0
1950	42,826	23,560	55.0	19,266	45.0
1960	53,024	32,797	61.9	20,227	38.1
1970	63,450	39,885	62.9	23,565	37.1
1973	69,337	44,653	64.4	24,684	35.6
1974	70,830	45,784	64.6	25,046	35.4
1975	72,523	46,867	64.6	25,656	35.4

Source: U.S. Department of Housing and Urban Development, "HUD Statistical Yearbook, 1976" (Washington, D.C. Government Printing Office, 1977), p. 261.

TABLE 18  
INDICES OF HOUSING MARKET CHANGES

Year	Median Family Income	Median Price Single-Family Residence	Over-the- Counter Savings	Home Ownership Cost	Rent
1960				86	92
1961				87	93
1962				88	94
1963		79		89	95
1964		81		91	96
1965		88		93	97
1966		94		96	98
1967	100	100	100	100	100
1968	104	109	108	106	102
1969	108	113	109	116	106
1970	107	103	122	129	110
1971	107	111	143	134	115
1972	114	121	165	140	119
1973	110	143	184	147	124
1974	110	158	203	163	131
1975	107	173	229	182	137
1976	111	194	259	192	144
1977(a)	(115)	210	(290)	202	152
1978(p)	(119)	(231)	(310)	(218)	(162)
1979					
1980(a)	(128)	(256)	(330)	(268)	208

Source: U.S. Bureau of the Census, Federal Home Loan Bank, U.S. Department of Labor

the increase in the owner's equity from \$10,000 to \$60,000 (\$100,000 minus \$40,000 mortgage), a six-fold increase, represents an annual compounded yield of almost 20%. And during that time the owner has had the benefit of using the house rent free except for taxes and running expenses.

A condominium owner is a homeowner and is in the same position to benefit. Condominiums have kept pace with, and in recent years jumped ahead of, the general inflation rate. As the condominium concept became more widely known, and generally accepted, condominium prices, which had lagged behind single-family homes, moved quickly to catch up. As a result, condominiums in recent years have constituted the safest widely available investment medium for apartment dwellers. Conversions of existing buildings to condominium ownership, whatever the disruptions they may have caused, have given apartment tenants their best chance to enter the housing market at a relatively low price in the City of Chicago and in the most desirable and fashionable neighborhoods in the city.

Condominium buyers have almost without exception seen their property increase dramatically in price following conversion. There are good reasons for this, including the general inflation and the growing interest in city living among younger people. A very important factor, though, is the spread between the price asked by converters who sell a great many units at once and the price that can be obtained later on by the tenant-purchaser when it is time to resell. That price tends to be much higher because the supply of available units in that building is much less, so prospective purchasers bid up the price. It is for this reason that many people have sought to rent apartments in buildings about to be converted, so they can cash in on this profit.

Inflation has had another impact on renters. It has shifted them into higher and higher income tax brackets. Even though incomes may be staying roughly the same in real terms, they grow higher every year with inflation. As a result, people in relatively modest occupations find themselves in the high tax brackets once the exclusive domain of executives and professionals. With higher income taxes comes the desire for some form of tax shelter, such as the ownership of a home or condominium apartment, which permits payments for interest and real estate taxes to be deducted from income for tax purposes. Renters, in shopping for condominium units, have become savvy buyers. They have learned to make the after-tax calculations necessary to compare their real (after tax) cost of home ownership to their monthly rental payments as tenants.

When the increase in value of homes and condominiums and the tax shelter advantages are added together, the investment results are staggering. A study soon to be released by the Department of Housing and Urban Development claims a homeowner with family income of \$39,000 per year can expect a 20-22% annual return on his home as an investment. No stock or bond can match that yield.

Yet a third factor encouraging renters to become owners is the increasing number of households in which more than one adult is employed. Working wives, once a rarity, are now commonplace in middle-class families, and the two income household permits a much wider range of housing choices--and often pushes family income into a much higher tax bracket, increasing the desire for ownership and making the return on their home as an investment even greater. A 1974 regulation which required mortgage lenders to take into account the income of the working wife in calculating mortgage borrowing power of the household provided a big boost to ownership--and to the prices of residential real estate, which have climbed steadily since that ruling went into effect.

## SCHEDULE 2

Condominium Conversions Benefit the Building and the Neighborhood

The conversion of buildings to condominium ownership has meant a tremendous improvement in the physical condition of many neighborhoods, a stabilization of their population, and a much greater feeling of participation and involvement by neighborhood residents in the affairs of their communities.

Few buildings are converted to condominium ownership without at least some cosmetic improvements. It may only be new landscaping in the front yard, steam cleaning a grimy brick exterior, new carpeting in the hallways, fresh paint on the walls, and new appliances in the kitchens. Even so, those are all improvements unlikely to have been done all at once if the building had remained in rental ownership. The building owner or a condominium converter must clean up and fix up every building if the units are to command full market value.

In many condominium conversions, more than cosmetic improvements are made. Many very run-down buildings have been converted to condominiums. Plumbing, wiring and mechanical systems have been totally replaced and brought up to current building code requirements. Apartments may be combined and enlarged, decreasing density in the neighborhood. Additional parking spaces may be added to improve parking and traffic conditions on the street.

Complete renovation and rehabilitation of an apartment building may cost anywhere from \$30 to \$60 or \$70 per square foot of building, depending upon the quality of finish and market for which the units will be priced. That expensive renovation and rehabilitation work generates jobs and income for carpenters, plumbers, electricians, contractors and tradesmen of many sorts. It also improves the appearance, character and quality of the neighborhood in which it takes place.

The renovation and rehabilitation often does not stop when a building is converted. Condominium unit owners are homeowners, and as such are likely to continue to renovate, decorate and improve their homes. That applies also to improvements to the common areas of the building by the condominium association. They may want more than the condominium developer has given them in the way of modern conveniences and common facilities. If they believe the appearance and quality of their building and the value of their individual units will be enhanced by common area improvements, they will make those improvements. They may be more likely to do so than a cash-strapped owner of a rental apartment building.

Condominium conversions stabilize neighborhoods. Some critics of the conversion process charge that the neighborhoods in which conversions occur don't need stabilization. That is not true. No

neighborhood has an assured future no matter how golden its recent past and present appearance is. Every neighborhood, no matter how popular, has some neglected buildings in the hands of landlords who are not properly maintaining them. There are more such buildings (and they have greater impact) in neighborhoods that are predominantly rental than in neighborhoods predominated by single-family homes. Every conversion of a building to condominium provides greater assurance that one less building may be left to deteriorate--and increases the chances that other buildings on the block and in the neighborhood will be improved and renovated.

As we have pointed out, condominium conversions are occurring in those neighborhoods along the lakefront with the most serious imbalance between renter-occupied and owner-occupied housing. When 84.4% of their housing units are renter-occupied, Chicago's lakefront census tracts cannot be considered to be the most stable neighborhoods. Tenant turnover rates in larger multi-family buildings are detailed in Table 28. The average tenant turnover rate in all buildings larger than 12 units for the Chicago metropolitan area is 24.1%. Elevator buildings, prevalent in the few blocks close to the lake where condominium conversions have been most intense, have the lowest average turnover. Yet even that figure was 22.8% in 1977.

An apartment building is therefore a revolving door with a constant influx of new tenants and new faces and an outflow of old ones. Even in neighborhoods where vacancy rates are low (supposedly an indication of a tight housing market), turnover rates are likely to remain high. As Table 28 indicates, in recent years the turnover rate has remained fairly constant despite claims by many that the vacancy rate has decreased.

The figures in Table 28 indicate that the average tenant in these kinds of buildings stays in place only four to five years. Turnover is even faster in buildings that cater to younger or more mobile households. Such buildings often encounter turnover rates on the order of 50%, which corresponds to an average tenancy of two years.

Because condominium conversion is typically scheduled to take place over a span of eighteen months to two years, it is therefore reasonable to expect that normal turnover would account for nearly half the apartments in the average building. Tenants who move would not be significantly affected by the conversion.

By contrast, the turnover rate in buildings converted to condominiums may be much lower. The 1970 census statistics provide strong support for that statement. A comparison can be made between the sections and census tracts listed in Tables 25-27 in which owner-occupied housing is most prevalent and the sections and census

TABLE 28  
TENANT TURNOVER RATES  
UNFURNISHED APARTMENTS  
CHICAGO METROPOLITAN AREA

	1974	1975	1976	1977
<u>ELEVATOR BUILDINGS</u>				
No. of Apts. Reporting	11,139	9,802	15,531	13,715
Turnover New Tenants	2,398	2,353	3,317	3,132
Percentage Turnover	21.5%	24.0%	21.4%	22.8%
<u>LOW-RISE, 25 OR MORE UNITS</u>				
No. of Apts. Reporting	3,440	7,137	5,235	4,794
Turnover New Tenants	949	1,684	1,360	1,286
Percentage Turnover	27.6%	23.6%	26.0%	26.8%
<u>LOW-RISE, 12-24 UNITS</u>				
No. of Apts. Reporting	1,375	2,166		1,745
Turnover of New Tenants	311	508	*	469
Percentage Turnover	22.6%	23.5%		26.9%
<u>TOTAL STATISTICS</u>				
No. of Apts. Reporting	15,954	19,105	20,766	20,254
Turnover of New Tenants	3,658	4,545	4,677	4,887
Percentage Turnover	22.9%	23.8%	22.5%	24.1%

\*Statistics not reported due to computational difficulties.

SOURCE: Institute of Real Estate Management, "Income/Expense Analysis" and Shlaes & Co.

1115

tracts with the largest number of residents who did not move between 1965 and 1970, as listed in Tables 30-32. The comparison shows that residents in neighborhoods with more owner-occupied housing are less likely to move than residents in neighborhoods with a heavy imbalance of rental housing. For example, the four Lakeview (Township 14) sections with the highest percentage of owner-occupied housing are the four sections with the most stable residents.

Renters who become unit owners in a converted building are more likely to take an interest in the upkeep, maintenance and day-to-day operation of their building after conversion than they did before. It is the condominium association's job to maintain the building after conversion, and each unit owner is a member of that association. When a tenant decides he doesn't like the upkeep of his building or the conditions of his neighborhood, he can move from the building or the area at the end of his lease. If the condominium unit owner does not like it, he is more likely to pressure his condominium association for better maintenance.

Condominium associations have become a very important and effective voice in community affairs in the lakefront neighborhoods in which conversions have occurred. A condominium association that perceives a problem on the block or in the neighborhood is more likely than the previous landlord to raise a ruckus until the problem is solved. They have even brought lawsuits to block neighborhood development that they considered detrimental to the area. Condominium conversion has created a community of interests in many buildings that were formerly an impersonal and uncaring assemblage of individual renters.



TABLE 29  
SELECTED POPULATION CHARACTERISTICS, 1970  
CHICAGO SMSA & SUBAREAS

	Population 65 and Older			Residence in 1970		
	Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residence as in 1965 Number of Persons	% of Population
CHICAGO SMSA	6,978,947	616,592	8.84	6,374,184	3,383,331	53.08
DuPage County	490,882	27,842	5.67	445,964	222,452	49.88
Kane County	251,005	22,326	8.89	227,548	120,346	52.89
Lake County	382,638	24,015	6.28	349,504	163,340	46.73
Will County	247,825	17,894	7.22	226,080	127,143	56.24
Cook County	5,493,766	514,266	9.36	5,023,604	2,696,560	53.68
CITY OF CHICAGO	3,369,357	355,298	10.54	3,081,109	1,614,396	52.40
% of SMSA Total	48.28	57.62		48.34	47.72	
North Lakeshore Area	581,844	87,535	15.04	387,207	200,804	51.86
% of Chicago Total	17.26	24.64		12.57	12.44	
Lakefront Tracts	146,028	28,609	19.59	146,811	45,186	30.78
% of N. Lakeshore Total	25.10	32.68		37.92	22.50	
South Lakeshore Area	109,944	13,361	12.15	101,448	34,377	33.89
% of Chicago Total	3.26	3.76		3.29	2.13	
Lakefront Tracts	42,956	7,074	16.47	39,853	13,339	33.47
% of S. Lakeshore Total	39.07	52.95		39.28	39.28	
Northwest Area	203,696	26,946	13.23	184,346	114,029	61.86
% of Chicago Total	6.05	7.58		5.98	4.23	

SOURCE: U.S. Bureau of the Census and Shlase & Co.

**TABLE 30**  
**SELECTED POPULATION CHARACTERISTICS, 1970**  
**NORTH LAKESHORE TOWNSHIPS**

Township -Section	Lakefront Census Tract	Population 65 and Older			Residence in 1970		
		Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residence as in 1965 Number of Persons	% of Population
10-24		6,309	677	10.73	6,064	4,476	73.81
10-36		18,270	3,223	17.64	17,560	9,072	51.66
10(Part) Total		24,579	3,900	15.87	23,624	13,548	57.35
11-30		12,346	2,022	16.38	11,493	4,898	42.62
11-29		13,688	2,167	15.85	12,861	3,931	30.57
	101	6,937	810	11.68	6,497	2,075	31.84
	103	6,751	1,357	20.10	6,364	1,856	29.16
11-31		21,349	3,507	15.15	21,434	9,137	42.63
11-32		25,443	4,156	16.33	24,063	8,132	33.79
	104	5,684	915	16.38	5,373	1,786	33.24
	105	11,118	1,975	17.76	10,551	3,400	32.22
11(Part) Total		72,826	11,852	16.27	69,851	26,098	37.36
13-1		18,975	3,183	16.77	17,983	10,060	55.94
13-12		21,358	3,612	16.91	19,937	10,347	51.90
13-13		24,299	3,305	13.60	22,420	11,789	52.56
13(Part) Total		64,632	10,100	15.63	60,340	32,196	53.36
14-6		15,919	2,574	16.17	14,787	7,055	47.71
14-5		37,292	6,542	17.54	35,450	12,343	34.82
	301	11,871	2,179	18.36	11,560	2,580	22.32
	306	10,051	2,284	22.72	9,775	2,788	28.52
14-7		20,683	3,910	18.90	19,304	9,936	51.47

TABLE 29  
SELECTED POPULATION CHARACTERISTICS, 1970  
CHICAGO SMSA & SUBAREAS

	Population 65 and Older			Residence in 1970		
	Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residence as in 1965 Number of Persons	% of Population
CHICAGO SMSA	6,978,947	616,592	8.84	6,374,184	3,383,331	53.08
DuPage County	490,882	27,842	5.67	445,964	222,452	49.88
Kane County	251,005	22,326	8.89	227,548	120,346	52.89
Lake County	382,638	24,015	6.28	349,504	163,340	46.73
Will County	247,825	17,894	7.22	226,080	127,143	56.24
Cook County	5,493,766	514,266	9.36	5,023,604	2,696,560	53.68
CITY OF CHICAGO	3,369,357	355,298	10.54	3,081,109	1,614,396	52.40
% of SMSA Total	48.28	57.62		48.34	47.72	
North Lakeshore Area	581,844	87,535	15.04	387,207	200,804	51.86
% of Chicago Total	17.26	24.64		12.57	12.44	
Lakefront Tracts	146,028	28,609	19.59	146,811	45,186	30.78
% of N. Lakeshore Total	25.10	32.68		37.92	22.50	
South Lakeshore Area	109,944	13,361	12.15	101,448	34,377	33.89
% of Chicago Total	3.26	3.76		3.29	2.13	
Lakefront Tracts	42,956	7,074	16.47	39,853	13,339	33.47
% of S. Lakeshore Total	39.07	52.95		39.28	39.28	
Northwest Area	203,696	26,946	13.23	184,346	114,029	61.86
% of Chicago Total	6.05	7.58		5.98	4.23	

SOURCE: U.S. Bureau of the Census and Shlaes & Co.

TABLE 30  
SELECTED POPULATION CHARACTERISTICS, 1970  
NORTH LAKESHORE TOWNSHIPS

Township -Section	Lakesfront Census Tract	Population 65 and Older			Residence in 1970		
		Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residences as in 1965 Number of Persons	% of Population
10-24		6,309	677	10.73	6,064	4,476	73.81
10-36		18,270	3,223	17.64	17,560	9,072	51.66
10(Part) Total		24,579	3,900	15.87	23,624	13,548	57.35
11-30		12,346	2,022	16.38	11,493	4,898	42.62
11-29		13,688	2,167	15.85	12,861	3,931	30.57
	101	6,937	810	11.68	6,497	2,075	31.84
	103	6,751	1,357	20.10	6,364	1,856	29.16
11-31		21,349	3,507	15.15	21,434	9,137	42.63
11-32		25,443	4,156	16.33	24,063	8,132	33.79
	104	6,584	915	16.38	5,373	1,786	33.24
	105	11,118	1,975	17.76	10,551	3,400	32.22
11(Part) Total		72,826	11,852	16.27	69,851	26,098	37.36
13-1		18,975	3,183	16.77	17,983	10,060	55.94
13-12		21,358	3,612	16.91	19,937	10,347	51.90
13-13		24,299	3,305	13.60	22,420	11,789	52.58
13(Part) Total		64,632	10,100	15.63	60,340	32,196	53.36
14-6		15,919	2,574	16.17	14,787	7,055	47.71
14-5		37,292	6,542	17.54	35,450	12,343	34.82
	301	11,871	2,179	18.36	11,560	2,580	22.32
	308	10,051	2,284	22.72	9,775	2,788	28.52
14-7		20,683	3,910	18.90	19,304	9,936	51.47

Table 30  
Selected Population Characteristics, 1970  
North Lakeshore Townships - Page 2

Township -Section	Lakeshore Census Tract	Population 65 and Older			Residence in 1970		
		Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Number of Persons	% of Population
14-8		35,515	6,651	18.73	33,239	10,722	32.26
	307	8,457	1,723	20.38	8,091	2,179	26.19
14-9	313	1,658	551	21.20	7,296	1,787	24.49
14-18		26,649	4,047	15.19	24,820	12,441	50.12
14-17		41,744	5,277	12.64	37,385	9,451	25.28
14-16	304	5,430	1,056	19.45	5,182	2,219	42.82
14-20		35,840	4,364	12.18	32,723	14,177	43.32
14-21		25,619	5,020	19.59	24,459	7,974	32.60
	608	4,313	855	19.82	4,157	1,512	36.37
	609	6,764	1,727	25.53	6,525	2,789	42.74
	619	9,259	1,785	19.28	8,945	2,193	24.52
14-29		29,587	3,064	10.36	26,879	12,629	46.98
14-28		33,371	6,174	18.50	32,202	10,324	32.06
	632	8,376	1,762	21.04	8,153	2,338	28.68
	633	8,757	2,137	24.40	8,529	3,129	36.69
	701	6,967	1,046	15.01	6,736	1,923	28.55
14-32		19,492	1,414	7.25	17,489	7,351	42.03
14-33		21,130	2,700	12.78	19,887	7,979	40.12
	714	3,919	945	24.11	3,799	1,429	37.62
	715	4,019	410	10.20	3,889	1,182	30.39
14 Total		348,271	52,794	15.16	221,026	124,601	56.37
17-4		39,205	2,658	6.78	35,521	15,870	44.68
17-3		19,544	3,940	20.16	19,225	6,671	34.70
	801	6,658	1,385	20.81	6,567	2,598	39.56
	812	5,914	1,135	19.19	5,908	2,059	34.85
	813	6,974	1,420	20.36	6,750	2,014	29.84
17-9		5,286	896	16.95	5,043	2,447	48.52

Table 30  
Selected Population Characteristics, 1970  
North Lakeshore Townships - Page 3

Township -Section	Lakefront Census Tract	Population 65 and Older			Residence in 1970		
		Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residence as in 1965 Number of Persons	% of Population
17-10		7,501	1,395	18.60	7,323	1,914	26.14
	814	4,878	827	16.95	4,832	733	15.17
	3201	1,375	325	23.64	1,332	677	50.83
17(Part) Total		71,536	8,889	12.43	12,366	4,361	35.27
Lakefront Tract Total		146,028	28,609	19.59	146,811	45,186	30.78
% of North Lakeshore Total		25.10	32.68		37.92	22.50	
North Lakeshore Total		581,844	87,535	15.04	387,207	200,804	51.86
% of Chicago Total		17.26	24.64		12.57	12.44	
City of Chicago Total		3,369,357	355,298	10.54	3,081,109	1,614,396	52.40

SOURCE: U.S. Bureau of the Census, U. S. Census of the Population and Housing: 1970, Chicago, Illinois SMSA  
and Shlaes & Co.

**TABLE 31**  
**SELECTED POPULATION CHARACTERISTICS, 1970**  
**SOUTH LAKESHORE TOWNSHIPS**

Township -Section	Lakefront Census Tract	Population 65 and Older			Residence in 1970		
		Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residence as in 1965 Number of Persons	% of Population
20-11		28,248	2,871	10.16	26,192	10,447	39.89
	1/4 of 3907	2,094	470	22.45	2,007	889	44.29
	1/4 of 4101	918	160	17.43	849	235	27.68
20-12		7,195	1,595	22.17	6,844	2,744	40.09
	1/4 of 3907	2,094	470	22.45	2,007	889	44.29
	1/4 of 4101	918	160	17.43	849	235	27.68
	4109	4,183	965	23.07	3,988	1,620	40.62
20-14		18,437	1,173	6.36	16,804	4,803	28.53
20-13		4,958	918	18.51	4,646	1,600	34.44
	4110	2,907	789	27.14	2,767	1,223	44.20
	4201	2,051	129	6.29	1,879	377	20.06
20-24		28,072	2,335	8.32	25,364	6,987	27.55
	4211	8,846	338	3.82	5,892	1,693	28.73
(421-19)	4301	13,388	1,482	11.12	12,312	3,088	25.08
20(Part) Total		86,910	8,892	10.23	79,850	27,581	34.54
21-30		23,034	4,469	19.40	21,598	6,796	31.47
	4314	7,557	2,104	27.84	7,294	3,090	42.36
21(Part) Total		23,034	4,469	19.40	21,598	6,796	31.47
South Lakeshore Total		109,944	13,361	12.15	101,448	34,377	33.89
Lakefront Tract Total		42,956	7,074	16.47	39,853	15,339	38.47
1/2 of S. Lakeshore Total		39.07	52.95		39.28	38.80	

TABLE 32  
SELECTED POPULATION CHARACTERISTICS, 1970  
NORTHWEST TOWNSHIPS

Township -Section	Population 65 and Older			Residence in 1970		
	Total Population	Persons 65 & Older	% of Total 65 & Older	Persons 5 Yrs. Old & Older	Same Residence in 1965 Number of Persons	% of Population
9-36	8,542	1,264	14.80	7,896	5,345	67.69
9(Part) Total	8,542	1,264	14.80	7,896	5,345	67.69
12-1	7,270	878	12.08	10,054	6,994	69.56
12-263, 10&11(Part)	2,577	106	4.11	2,433	256	10.52
12-10&11(Part), 14&15, 23(Part)	2,034	35	1.52	1,758	713	40.56
12-23(Part)	5,594	574	10.26	5,266	3,668	69.65
12-24	15,249	1,714	11.24	14,236	9,230	64.84
12(Part) Total	32,724	3,307	10.11	33,747	20,861	61.82
13-6	10,581	1,516	14.33	10,001	6,751	67.50
13-8	13,371	1,806	13.51	12,575	8,786	69.87
13-9	11,935	1,538	12.89	11,170	7,624	68.25
13-16	15,681	2,384	15.20	14,721	9,322	63.32
13-15	14,031	2,108	15.02	15,041	7,380	49.07
13-19	12,018	1,576	13.11	11,473	7,807	68.05
13-20	15,552	2,516	16.18	14,710	9,466	64.35
13-30	12,459	1,829	14.68	11,694	7,444	63.66
13-31	9,152	1,503	16.42	8,716	5,991	68.74
13(Part) Total	114,780	16,776	14.62	110,101	70,571	64.10
16-5(Part)	10,229	1,579	15.44	9,483	5,582	58.86
16-8(Part)	12,874	2,061	16.01	11,880	4,925	41.46
16-9	24,547	1,959	7.98	21,939	6,745	30.74
16(Part) Total	47,650	5,599	11.75	32,602	17,252	52.92
Northwest Area Total	203,696	26,946	13.23	184,346	114,029	61.86

-70-

1121



#### Condominium Conversions Strengthen Adjacent Neighborhoods

Common sense confirms neighborhood organizations' claims that condo conversion provides a bootstrap lift for neighborhoods where the conversions occur, as converters overhaul the buildings before selling individual apartments and as tenants upgrade their own units. But an equally important force in neighborhood improvement is the shift to nearby older neighborhoods by younger households who will not buy condominiums in many lakefront areas.

Wicker Park, Logan Square, Edgewater, West Lakeview, East Ravenswood, Uptown, South Shore, the Near West Side and the fringes of Lincoln Park have all benefited from this phenomenon. As prices climb for close-in lakefront and Lincoln Park houses and condos, households increasingly eye the attractive buys available in communities nearby. As a result, Realtors and lenders report major increases in rehabilitation activity and property values, accompanied by a sharp improvement in the physical appearance and morale of the receiving neighborhoods.

Building department statistics may provide some evidence of the extent of the shift. Total building repair, remodeling and reconstruction permits in the West Town area including Wicker Park in 1971, for example, amounted to only \$235,281. By 1978, as condominium conversions in nearby lakefront areas increased, permits in the community area including Wicker Park had risen to \$2,219,316. Similarly, Uptown and Edgewater permits increased from \$222,640 in 1971 to \$2,989,769 in 1978. Logan Square went from \$260,832 in 1971 to \$1,913,132 in 1978, and South Shore climbed from \$100,899 in 1971 to a 1978 high of \$852,782.

As renters who can no longer afford the rents in the most popular lakefront neighborhoods (and do not buy condominiums) move to other neighborhoods, their new neighborhood and the entire city will gain. The neighborhood newcomers bring higher incomes and greater spending power that benefits rental housing and the neighborhood commercial areas.

Neighborhood organization leaders are becoming increasingly aware of the positive impact lakefront condominium conversions are having on other innercity and outlying neighborhoods. But they are also concerned about the displacement of lower-income households in their own neighborhoods as they improve. Everyone wants to see his neighborhood get better but few like to see their neighbors forced out by neighborhood upgrading. The solution, if there is one, appears to be subsidies to help those affected to stay in place--or simple acceptance of the fact that neighborhoods change for the better as well as for the worse, and some people may not be able to meet the increased housing costs associated with living in a better neighborhood.

## SCHEDULE 3

Condominium Conversions Have Improved the Tax Base

There has been some controversy concerning the fiscal impact of the condominium conversion phenomenon in Chicago. Some have alleged that there is a net tax decrease to the city as a result of the condominium conversion process. They point to the difference in rate of assessed valuation between apartment buildings (33% of market value) and single-family dwellings (16% of market value) as proof of a projected tax decrease. However, because the composite prices of the individual units in a building converted to condominiums almost always add up to far more than the market value of the building as a rental apartment building, the decrease from 33% to 16% of market value should be more than offset by the increase in value of the total units.

A 1977 study surveyed seventeen buildings with 16 units or more in six separate townships in the city. That study compared 1976 taxes as apartment buildings (projected from 1975 taxes) to the actual 1976 tax for the same buildings after conversion to condominium units. Of the seventeen structures, eleven showed increases in taxes while six indicated decreases. The average increase in assessed valuations for the entire sample of buildings was 7.4%, and the average increase in taxes for the sample was 7.8%.

Our study confirms the earlier study. There is a net tax benefit to the city--and the benefit is quite substantial, indeed. In Table 33 we have listed the before and after assessed valuations on 51 buildings converted to condominiums in the City of Chicago in 1977. Beginning with 220 declarations filed in 1977, we identified only 88 buildings with more than six units and not newly constructed. From this total we were able to find assessed valuations for 51 buildings during 1976 when they were operated as apartment buildings. Time did not permit tracking down the remaining 37 buildings. On 44 of the buildings (approximately 86%) there was an increase in the assessed valuation of the building after its conversion to condominiums. In many cases the increase in assessed valuation was quite substantial. On 22 of the buildings the increase was 50% or more. Fifteen of those 22 buildings showed an increase of 100% or more in assessed valuation, and some buildings showed increases of 200, 400 and even more than 700% in assessed valuation. The net increase in assessed valuation was more than \$7.3 million, a 27.6% increase.

In the case of some of the seven buildings that showed a net decrease in assessed valuation, the decrease may be due to partial assessments. When a building is converted to condominiums, it may take some time for all of the units to sell out. A building upon which a condominium declaration was filed in the second half of 1977 may not have sold out its units until well into 1978. As a

TABLE 33  
REAL ESTATE TAX ASSESSMENTS FOR  
CONDOMINIUMS THAT FILED DECLARATIONS IN 1977

Permanent Index Number (as Condo)	No. of Units	1977 Apartment Assessment	1978 Condominium Assessment	% Change
11-32-112-024	9	\$ 66,497	\$ 40,141	-39.64
12-23-400-007	41	279,754	301,561	7.8
13-09-328-065	17	130,653	108,955	-16.6
13-15-417-027	9	60,972	47,557	-22.0
13-16-122-043	8	46,619	55,606	19.3
13-31-118-040	33	137,942	194,866	41.3
14-05-202-019	125	480,781	425,435	-11.5
14-05-112-035	10	16,055	50,408	214.0
14-05-301-023	12	38,449	41,934	9.1
14-05-305-036	7	21,770	47,389	117.7
14-05-310-056	12	32,124	65,336	101.4
14-05-406-022	74	449,355	485,476	8.0
14-05-403-022	90	1,254,267	755,216	-39.8
14-06-201-012	10	8,497	55,281	550.6
14-06-204-022	8	25,718	34,436	33.9
14-07-204-040	9	25,090	40,798	62.6
14-08-203-015	466	2,798,930	3,386,106	21.0
14-08-413-040	82	405,253	469,582	15.9
14-16-301-041	863	4,399,921	6,034,839	37.2
14-16-302-028	28	86,485	238,057	175.3
14-16-303-033	22	73,576	192,918	162.2
14-16-303-034	34	60,835	212,240	248.9
14-16-305-021	84	471,959	475,260	0.7
14-18-209-027	7	9,079	30,268	233.4
14-18-210-049	9	40,490	44,622	10.2
14-21-101-135	240	1,291,390	1,609,551	24.6
14-21-101-034	658	3,186,535	3,878,446	21.7
14-21-106-029	12	48,579	89,242	83.7
14-21-103-029	9	20,687	72,949	252.6
14-21-106-030	61	668,134	765,693	14.6
14-21-110-020	637	3,072,770	3,472,073	13.0
14-21-111-007	725	3,578,214	3,868,152	8.1
14-21-308-059	7	22,614	48,945	116.4
14-21-312-047	24	141,580	190,480	34.5
14-28-111-051	8	9,785	54,056	452.4
14-28-103-057	17	93,594	191,844	105.0
14-28-105-075	10	67,199	77,582	15.5
14-28-308-020	20	102,896	115,609	12.4
14-29-222-036	81	192,442	221,484	15.1
14-33-108-038	35	201,785	263,631	30.6
14-33-422-068	419	742,401	2,746,697	270.0
14-32-221-040	7	8,332	71,978	763.9
17-03-106-027	112	966,136	1,235,492	27.9

Table 33  
Real Estate Tax Assessments for Condominiums  
That Filed Declarations in 1977 - Page 2

Permanent Index Number (as Condo)	No. of Units	1977 Apartment Assessment	1978 Condominium Assessment	% Change
20-11-212-129	24	\$ 62,840	\$ 125,049	99.0%
20-11-202-040	9	30,478	59,716	95.9
20-11-328-025	30	75,012	113,783	51.7
20-11-400-019	24	60,428	156,108	158.3
20-12-110-035	16	69,357	128,946	85.9
20-12-114-054	77	381,720	338,014	-11.4
20-24-411-021	30	30,508	163,755	436.8
20-34-100-033	10	51,115	41,771	-18.3
		\$26,597,602	\$33,935,333	27.6%

result, a purchaser in 1978 would pay property taxes on his unit for only that part of the year after he purchased. The full effect of taxes on assessed valuation of the conversion of the building would not appear until the first full tax year after every unit had been sold. Partial assessments are likely also among buildings showing assessed valuation increases so the full tax benefit to the city is probably understated.

Some of the increase in assessed valuation shown in Table 33 can be attributed to the normal increase in taxes and assessed valuation that would have occurred if the building had been retained as a rental apartment building from 1977 to 1978. Cook County is divided into four quadrants for purposes of reassessment. Each part of the city is therefore reassessed every four years. The quadrant including Township 14 and Township 17, in which the bulk of the condominium conversions have been occurring, was reassessed in 1976. Even if we assume that the 1977 apartment building assessment as shown in Table 33 is somewhat lower than what it should be based on an imputed increase over the 1976 assessment, the increase in assessed valuation due to condominium conversion is still quite dramatic. Assuming that the 1977 apartment building assessment would be 10% higher, condominium conversions would nonetheless result in a 17.7% increase (average) on buildings converted to condominiums in Township 14 and Township 17.

As a corollary to the argument made above, condominium conversions between quadrennial revaluation years result in revaluations of the entire property at an earlier date. In effect the city receives the benefit of earlier recognition of increases in property values due to the conversion process.

The increase in taxes at time of conversion is only the first tax benefit to the city. Every time a unit changes hands, the Cook County Assessor has a new market value indication to use for reassessment. The rapid appreciation in condominium prices means a rapid increase in the property taxes payable by the unit owner. Apartment building owners may appeal their tax assessments based on their inadequate cash flow. Condominium owners, like homeowners, can only appeal on the basis of market value and are reluctant to do so because they fear calling attention to possible further increases. The availability of comparable sales transactions--often of a similar size unit in the same building--makes it much easier for the tax assessor to determine a very accurate assessed valuation.

In amending the City of Chicago regulations governing condominium conversions, we must be very careful that the city does not lose the tremendous fiscal benefits provided by the conversion process. When the property tax base in so many areas of the city is eroding, the city can ill afford to halt a process that has such important benefits to the city in terms of neighborhood and property tax base improvement.

Answers to some  
questions you may have  
about buying a  
condominium.

ATTACHMENT A

ROBERT SHERIDAN  PARTNERS  
5415 NORTH SHERIDAN ROAD • CHICAGO, ILLINOIS 60640

**Introduction**

Over the past 15 or so years, "condominium" has become almost a household word in our language. More and more people are choosing condominium ownership over renting or other forms of home ownership. And for some very good reasons—which you'll read more about on the following pages.

But even with the mushrooming popularity of condominiums, there appears to be a need for clearer understanding of the subject by prospective buyers. And that's the purpose of this brochure: To help you become better informed about the concept of condominium ownership.

Some of the subjects we'll cover are the advantages of condominium ownership, what a condominium buyer actually owns, how condominium buildings are managed, and, perhaps more important, how to go about selecting the right condominium for you. We've attempted to eliminate "textbookish" real estate theory or minute legal details in favor of accurate everyday terminology.

Whether you are already well-informed about condominiums and perhaps even have owned one or more, or are completely new to the subject, we hope you'll find this pamphlet interesting and informative.

#### What Is A Condominium?

Webster's Seventh Collegiate Dictionary defines "condominium" as "...individual ownership of a unit in a multi-unit structure..."

In common usage today, "condominium" is used to refer to the dwelling unit or to the building in which it is located.

Throughout this pamphlet, however, we will use the word "condominium" to refer primarily to the individual dwelling unit.

When you own a condominium, you hold absolute title to such a dwelling unit within a larger property. You own the actual cube of space occupied by that unit.

You also own, collectively with all other owners in the same property, all so-called "common areas" which include lobbies, garage, elevators, lawn areas, recreational facilities, roof, and anything else considered common property.

#### Are Condominiums A New Idea?

In some parts of the United States, the condominium concept is just now becoming commonplace. Until the early 60's, in fact, condominiums were rare anywhere in the nation. But the concept is hardly new, since we know that condominium ownership existed in ancient Babylon and in the Roman Empire.

For centuries, the most desirable apartments in the great cities of Europe have been condominiums. Many of these are converted palaces and other historic buildings.

Many observers believe that this is now the trend in the United States. Chicago's "Gold Coast" is close to 100% condominium, as is the oceanfront area of southern California, and many other highly desirable urban areas. In major metropolitan areas across the country, expansion of the suburbs now consists largely of condominium townhomes, quadplexes, and both low and high-rise condominium apartment buildings. Every year, hundreds of new condominium properties are being built, and every year more and more of the most desirable rental buildings are being converted to condominium ownership.





#### **What Are The Advantages of Condominium Ownership?**

A condominium combines the advantages of home ownership with the advantages of apartment living.

*For example, there are very specific financial advantages to owning your own home:*

If you itemize deductions, you are able to deduct mortgage interest payments and real estate taxes on your income tax return. For example, if the interest portion of your mortgage payment is \$400 per month (\$4,800 per year) and your real estate tax is \$900 per year, you have a total deduction of \$5,700. If you are in a 34% tax bracket, you save \$1,938 per year. If you were renting, the landlord would use your rent money to pay his taxes and interest, but would keep the deduction for himself!

Your monthly dwelling costs tend to remain fairly stable. Under ordinary circumstances, your mortgage payment does not increase, while rent payments tend to increase

constantly. In inflationary times, this is a particularly important advantage.

Most real estate, particularly well located "prime" real estate, tends to increase in value at a rate greater than the rate of inflation. As a property owner, you can often resell at a higher price than you paid, even in real before-inflation dollars.

Because of this increasing value, and because each payment reduces the balance of your mortgage loan, your equity in your home increases steadily.

*Now consider some of the advantages of apartment living:*

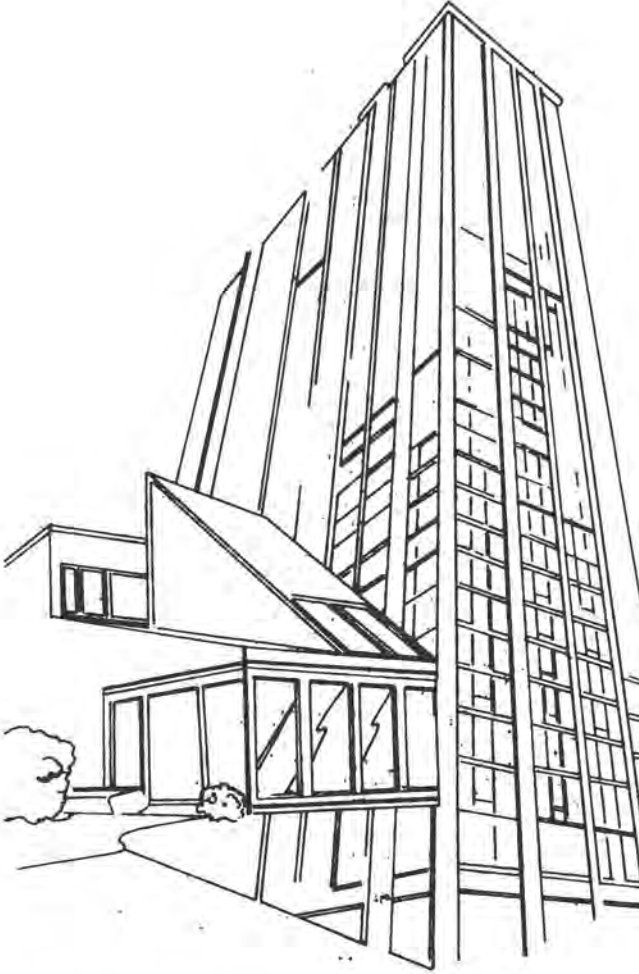
The apartment dweller doesn't have to worry about outside maintenance. All the painting and patching, landscaping, grass cutting, and so on, is handled by the management. Building maintenance is also the concern of the management—this includes such items as furnace cleaning and roof repair. Owners of single family homes have to devote a great deal of their spare time to such concerns.

Apartments are often available in the most desirable locations, where single-family homes are either unavailable or are prohibitively expensive.

Security is often superior in an apartment building. This is especially true in today's well-managed condominium buildings which generally have systems to discourage intrusion. The single family home is relatively easy prey for intruders, while apartment dwellers are more free to lock up and go as they please.

Apartment buildings offer amenities which would be quite expensive for the single family homeowner to own and maintain. For example, many condominium buildings offer swimming pools, hospitality suites, tennis courts, and other recreational facilities. There are few single family homes with such facilities, and when they exist, the cost to the owner is many times the cost incurred by the owner of a condominium in a building with the same features.

Now, if you own a condominium, you have all of those advantages of home ownership, plus the advantages of apartment living. You enjoy the tax savings and financial security of ownership, and the carefree, convenient lifestyle of the apartment dweller.



**Is A Condominium A Particular Type of Building?**

No, condominium buildings come in all sizes and shapes. What makes a particular property a condominium is that dwelling units are individually owned, while the common areas of the buildings and grounds are owned collectively.

**If I Buy A Condominium, What Do I Actually Own?**

You own your own dwelling unit. You hold this dwelling unit in absolute title just as you would a single family home. In addition, you and all other owners in the same condominium property own the common areas collectively. Another way of saying this is that you hold an "undivided interest" in the common areas.

**Who Takes Care Of All That Outside Maintenance And Other Such Chores?**

Professional workers hired by the management firm, which works for the homeowners association. The management firm takes responsibility for keeping the building or buildings in good condition, for engineering, janitorial work, gardening, landscaping, as well as the day-to-day management requirements. Some of the work may be done by permanent, full-time personnel, while other work is performed by contractors.

In a few instances, condominium homeowner associations have elected not to use a professional management firm, but instead have appointed representatives who take on the job of procuring and supervising all needed services. We do not recommend this method. A good professional management firm can do a better job because of its experience and greater "hiring power."

**What Is The Homeowners Association? Who Actually "Runs" A Condominium Building?**

Just as the name implies, the homeowners association is an association comprised of all owners of condominium units in the property. If you own a condominium, you are automatically a member of the association for that particular property. Ultimately, it is this association which "runs" the building or buildings involved through a Board of Directors elected by the members.

As a member of that association, you have voting rights determined by your percentage of ownership. This may be based on the size of your apartment or the price you paid, as specified in the "Condominium Declaration."

**Who Pays For All The Work?**

Each owner within a condominium property pays a monthly fee, often called the "condominium fee" or "maintenance fee." The sum total of these monthly fees is combined and used to pay for maintenance, repair, landscaping and decoration of the common areas, and for capital replacement.



#### **How Is The Amount Of The Fee Determined?**

Initially, the fee is set by the developer who has estimated what it will initially cost to keep the building in good condition and to pay for the upkeep of any amenities such as swimming pools or hospitality suites. Once the homeowners association is formed, the Association approves the fee, reduces it if less money is needed, or increases it when costs go up.

The actual amount paid by each owner is determined by the percentage of his interest in the building, which is usually based on the size of his unit or the purchase price. Details are specified by the declaration.

#### **How Much Is The Condominium Fee?**

That depends on a number of factors including the size and condition of the property, the amenities included, and costs of services in the area. When a developer offers to sell you a condominium unit, he must give you an estimate of the condominium fee.

The condominium fee is not, in the true sense, an "extra cost" of owning a condominium. The owner of a single-family home must pay for maintenance and upkeep. And in a rental building the cost of maintenance and upkeep is included in the rent.

**Can One Owner Be Held Responsible For Another's Condominium Fee Or Mortgage Payment?**

No. If another owner fails to pay his fee, he is delinquent on a debt and would be subject to standard collection procedures. And, of course, mortgage payments are a matter between each owner and his lending institution. This is one of the major advantages of condominiums over cooperatives.

**What About Maintenance Within My Own Unit?**

Maintenance and upkeep within your own unit is your own responsibility. Similarly, you cannot be held responsible for the cost of another owner's maintenance and upkeep of his unit.

**What Is The Difference Between A Condominium And A Cooperative?**

In a condominium building you have sole ownership of your own apartment, and you obtain your own mortgage. You are generally free to sell your unit whenever you choose, although some condominium associations may have the right of first refusal.

In a cooperative, you are a shareholder in a corporation which owns the building and leases an apartment back to you. Instead of individual mortgages, there is one large "blanket mortgage." In certain instances you might be held responsible for another shareholder's portion of the mortgage payments or real estate taxes. And you might not be free to sell your apartment (technically, your stock in the corporation) without the approval of the cooperative.

**How Are Real Estate Taxes Established For A Condominium?**

By assessment, the same as for a single-family home.

**What Other Costs Are Involved?**

In addition to your own mortgage payments and condominium fees, you pay only such items as utilities which would be your responsibility in any kind of home you might own.



#### **How Do I Go About Selecting A Condominium?**

You should consider many of the same points you'd consider when buying a single family home or, for that matter, renting an apartment. Just a few of the questions you might want to ask are:

**Location.** Is the neighborhood a desirable one? Are property values in the area increasing steadily? How about transportation? Is it convenient to shopping? To my work? To parks, churches, schools... other places which may be important to me?

**Floor plan.** Is the apartment big enough? Does it have the kind of rooms I need? Is there enough closet space for my needs? Is the kitchen adequate?

**Construction.** Does the building "feel solid"? Is it quiet enough for me? Do I like the architecture?

**Condition of the property.** How well is the building managed? What is the condition of the furnace? Air conditioning? Lighting? Elevators? How adequate are these?

**Recreational facilities.** Does the property offer a pool? Tennis courts? Parking, indoor and outdoor? Hospitality suite? Sundeck? Saunas? Exercise room? How much will it cost to use these facilities?

**Price and financing.** How much is the price per square foot and how does it compare to similar properties? What kind of mortgage financing is available? How does the price compare to the appraisal? How much is my total monthly cost? Is this affordable?

**Developer.** With whom am I dealing? Does the company have a good reputation? Can I count on them doing what they say they'll do? Is the company experienced in the development of condominiums? How well does the sales person understand my particular needs? How do past buyers rate the developer?

**Atmosphere.** Does the property match my lifestyle? Would I be happier in a place that's a little more sedate? Or a little more vibrant? How many of what size apartments are in the property? Who are the present tenants and other owners? Are they people I'd want for neighbors?

**Security.** Is there a doorman? How many hours per day? Is there apartment-to-lobby communications? If there is no doorman, how good is the ring-in system? How well lit is the lobby? Garage? Other common areas? Is there video surveillance of parking areas, corridors, and recreation areas? Audio surveillance? How secure are service entrances?

For your own convenience, we have included a "check list" at the back of this pamphlet. The important point to remember is that a condominium, like any other home, is a major purchase which deserves your full attention to every detail. By shopping, comparing, and perhaps most important of all, knowing your developer, you can assure yourself of the best possible value for your money.

#### **Is It Possible To Rent A Condominium?**

Yes, you may find condominium apartments whose owners use them for income property. The other side of that coin is that it would also be possible for you to purchase a condominium and rent it out, subject to terms of the condominium declaration. Some condominium associations place restrictions on renting or leasing.



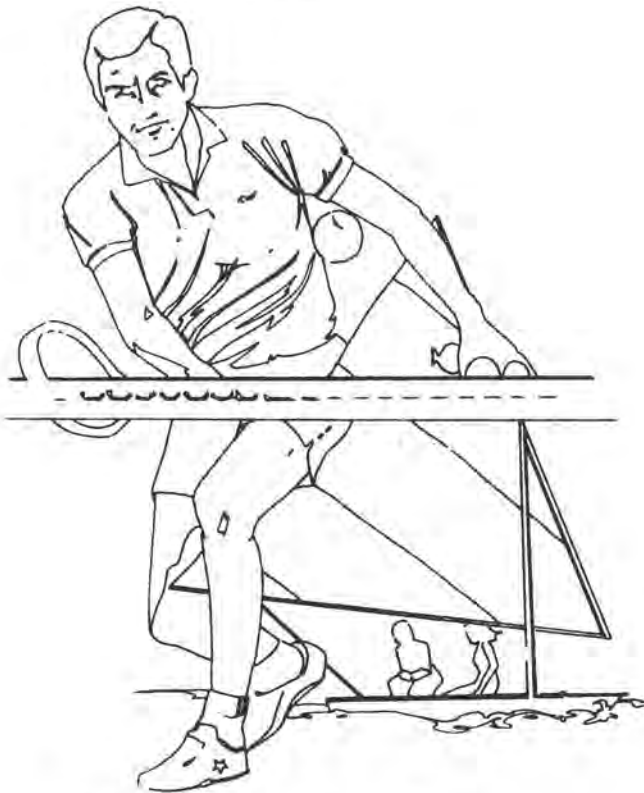
**What Is The Role Of The Developer?**

In the case of an existing building converted to condominium ownership, the developer sets the entire "tone" of the conversion, determines what changes or improvements are to be made and takes responsibility for getting this done. The developer is also responsible for assuring that any maintenance problems have been foreseen as much as possible and dealt with appropriately. The developer sets the initial "ground rules" and establishes the homeowners association. The developer must decide what upgrading should be done to meet the needs of condominium owners. Usually it is the developer who initially selects and hires the management firm.

In addition, the developer is responsible for the condominium declaration which has a great deal to do with the success of future management. A conscientious developer will make the declaration sufficiently "tight" to eliminate any grey areas for the Board of Directors to struggle with.

And, of course, you are a customer of the developer. Just as in the case of any other large purchase, the firm with whom you deal determines how well promises will be kept, how closely deadlines will be met, and how your individual needs will be taken care of. There is a great deal of variance in the percentage of "happy owners" among customers of different condominium developers, so the reputation of the firm should be taken into consideration.

In other words, the developer is *very* important. The developer, more than any other single factor, determines the make-up, character, and future success of the property.



**Who Is Robert Sheridan & Partners?**

Robert Sheridan & Partners is a group of partnerships which, taken together, constitutes one of the nations' leading condominium developers. Our top executives have been involved in the development of condominium properties in a number of communities, from the large cities to small towns.

Among condominium developers, real estate professionals in general and the financial community, we enjoy an acknowledged reputation for fair dealing with our customers, for quality upgrading, and for successful developments. In spite of our size and success, we are a very personal company, and take a sincere responsibility in handling customers' questions and problems.

If you would like to know more about Robert Sheridan & Partners, we invite you to ask any of our past buyers for a candid opinion of our company, because we have built our business on satisfied buyers, and hope that we can soon count you among them.

**Condominium Checklist**

Property name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

Contact \_\_\_\_\_

Developer \_\_\_\_\_

Reputation \_\_\_\_\_

**Number of units in the building:**

Studios \_\_\_\_\_ Two Bedrooms \_\_\_\_\_

One Bedroom \_\_\_\_\_ Larger \_\_\_\_\_

Total \_\_\_\_\_

**Number of elevators:**

Passenger \_\_\_\_\_ Freight \_\_\_\_\_

Number of stairways \_\_\_\_\_

Parking: Number of spaces available  
for each apartment \_\_\_\_\_

Monthly parking cost \_\_\_\_\_

**Recreational facilities:**

Pool \_\_\_\_\_ Exercise room \_\_\_\_\_

Tennis \_\_\_\_\_ Saunas \_\_\_\_\_

Golf \_\_\_\_\_ Sundecks \_\_\_\_\_

Handball/  
Racquetball \_\_\_\_\_ Hospitality suite \_\_\_\_\_

Other \_\_\_\_\_

Total additional cost of the recreational  
facilities I'd use: \$\_\_\_\_\_ per month.

Rooms in the unit I'm considering \_\_\_\_\_

Total square feet \_\_\_\_\_

Size of kitchen \_\_\_\_\_

How are the views? \_\_\_\_\_

How many floors up \_\_\_\_\_

Closet space \_\_\_\_\_

**Features:**

air-conditioning \_\_\_\_\_ double-pane

wall-to-wall \_\_\_\_\_ windows \_\_\_\_\_

carpet \_\_\_\_\_ disposer \_\_\_\_\_

1141

dishwasher \_\_\_\_\_ double sink \_\_\_\_\_  
compactor \_\_\_\_\_ self-cleaning  
frost-free \_\_\_\_\_ oven \_\_\_\_\_  
refrigerator \_\_\_\_\_ ceramic baths \_\_\_\_\_  
balconies \_\_\_\_\_

Others: \_\_\_\_\_

Electric power separately metered? \_\_\_\_\_

Type of heating:

\_\_\_\_\_ Forced air  
(Gas \_\_\_\_\_, Electric Stripheaters \_\_\_\_\_)

\_\_\_\_\_ Steam

\_\_\_\_\_ Hot water

\_\_\_\_\_ Reverse cycle AC

Other \_\_\_\_\_

Distance to public transportation \_\_\_\_\_

Distance or time to work \_\_\_\_\_

Distance to school \_\_\_\_\_

Distance to major shopping \_\_\_\_\_

To grocery store \_\_\_\_\_

General appearance of the neighborhood \_\_\_\_\_

General appearance of the property \_\_\_\_\_

Price \$ \_\_\_\_\_

Price per square foot \$ \_\_\_\_\_

Condominium fee \$ \_\_\_\_\_

Notes: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1142

Attachment B

C O P Y

James A. Laadt . 226 W. Rittenhouse Square . Philadelphia, Pennsylvania 19103

11/29/80

Dear Mr. Sheridan—

During the last months I enjoyed writing you two letters, one wishing you well at The Dorchester, the other complimenting Mrs. Sigmon, from whom we bought our apartment. I can't resist a third, prompted by comments and reactions attributed to you in local papers recently and which so closely approximate mine. I, too, am a native Chicagoan, came here in a business move in 1955, heading up an East Coast outlet for Danly NiacLine Corporation of Chicago. I retired ten years ago.

Having been steeped in the "I WILL" spirit of such chest-pounding types as Bill Thompson and Ed Kelly and Paddy Nash and Tony Cermak, I was appalled to find self-deprecating Philadelphians by the thousands more or less apologizing for their very existence. I pointed out what was here—Society Hill, Penn Center, Fairmount Park, the magnificent approaches to the Art Museum, the Schuylkill, the East River Drive, geographical location with such close proximity to Shore, New York, Washington, Poconos. All I got were stares and yawns. In fact, I was in the throes of divorce when I arrived, subsequently remarried a native Philadelphian, who succinctly told me, "We don't want people coming in here to bother us." Parochialism no end—.

Yes, I can see where Philadelphia Banks might frown upon progressive plans—much buried past financial glory, little future view. I agree with you that the values of your condominium apartments might well double or treble in the near future. And while the Dorchester, Philadelphian and Sutton Place seem so logical as starting points, I'm intrigued with your plans for the Touraine. That should be a fascinating project.

Many thanks for your fine efforts in bringing Philadelphia into the twentieth century. I'm proud of what is finally happening here, and it is gratifying to see you take the bull by the horns and act!

Sincerely yours,

s/James A. Laadt

## McBRIDE, BAKER, WIENKE &amp; SCHLOSSER

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 LEONARD E. LEE  
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110 NORTH WACKER DRIVE  
 CHICAGO, ILLINOIS 60606  
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 1211 WEST 32ND STREET  
 OAK BROOK, ILLINOIS 60051  
 TELEPHONE 389/887-8878

EDWARD E. RABER, JR.  
 MAY 1978  
 BARTER WIENKE  
 1940-1978

APRIL ELMER SCHIAYE  
 DAVID ACKERMAN  
 ELIAS H. MATHEIS  
 FRANK H. KNOX  
 WILLIAM E. CRISPIN  
 ROBERT C. SCHWITZ  
 STEVE LEON ROOYDINE  
 CARSON F. VANCE  
 PAUL G. SIMON  
 DAVID O. TOOLAN  
 THOMAS J. SHEPHERDSON

June 27, 1979

Mr. Robert Sheridan  
 Robert Sheridan & Partners  
 5445 North Sheridan Road, Suite 1015  
 Chicago, Illinois 60640

Dear Bob:

I very much appreciate your complimentary letter of June 25th as regards my directorship and my more recent election as President of 1550 State Parkway.

In terms of "cooperation", I am sure that you know by now that cooperation is the product of the efforts of two or more people rather than the unilateral effort on the part of a single person. Stated another way, because of the manner in which you approached the conversion project at 1550 State, you won the praise and expressions of great satisfaction from all the present Directors and from almost all the occupants (there are always those who have unreasoning dissents). My cooperation, therefore, was predicated on the fact that I had a very responsive and responsible developer with whom to cooperate.

Sincerely yours,

*Mac*

LMM:MC

1144



2842 W. FULLERTON AVENUE \* CHICAGO, ILLINOIS 60647

384-7131

Mr. Robert Sheridan  
5445 N. Sheridan Rd.  
Chicago, IL 60640

June 6, 1979

RECEIVED  
JUN 7 1979  
ROBERT SHERIDAN & PARTNERS

Dear Bob:

Many thanks for your congratulatory letter.

I would also like to express my appreciation for your support and cooperation over the last seven or eight months. Although everyone realizes that this property was developed for profit, I believe you also did a great deal to reduce the trauma for the unit buyers. (They may never believe this but I do!)

I look forward to more of a good relationship over the coming years.

Regards,

ARBY GRAPHIC SERVICE, INC.

A handwritten signature in dark ink, appearing to read "R. Baruch", is written over a horizontal line.

Russell Baruch - President

P.S. Also forgot to mention the fine meal we had together. June and I enjoyed being with the group.

RB:pk

1145

PHONE (312) 272-0082

*St. Ann's Home* FOR THE AGED  
Conducted by THE MISSIONARY SISTERS, SERVANTS OF THE HOLY SPIRIT

TECHNY, ILLINOIS 60082

"where life is encouraged and age is graceful"  
1967 - OUR 75th ANNIVERSARY - 1979

July 2, 1979

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JUL 2 1979

ROBERT SHERIDAN & PARTNERS

Mr. Robert Sheridan  
5445 N. Sheridan Road  
Chicago, IL 60640

Dear Mr. Sheridan:

As a Nursing Home Administrator and advocate for our Older Americans I want to congratulate you for your thoughtfulness in setting aside 25 Studio apartments in your 466 unit High-rise, for elderly residents who do not want to buy. Because of their limited income, generally poor physical condition and inability to articulate their needs, you are performing an exemplary service to these tenants.

Again, my congratulations, and best wishes for your continued success!

Sincerely,

*Norbert F. Gumbinger*

Norbert F. Gumbinger  
Administrator  
NFG/hg

enclosures



## RESIDENTS' COMMENTS ON RESTORATION OF 1550 STATE PARKWAY

Norman Ross, Vice President, First National Bank of Chicago:

"Mr. Sheridan did an exemplary restoration job to 1550 State Parkway. He took care to preserve the original character of the old building by renovating and repairing rather than replacing many of the adornments that can't be duplicated today. However, he made sure the residents have all the conveniences of modern day living. Our plumbing, heating and electrical systems are in excellent working order. Air conditioning was added and the elevators were automated. I've lived in the building for 15 years and I'm more than pleased with Mr. Sheridan's model improvement program."

Mrs. T.I. Underwood, a resident for 33 years:

"When I was a little girl I used to play at the 1550 building. I am thrilled to see the building returned to its original period. Because of the tedious work restoring the building, the work has taken awhile to complete. But now that it is nearly finished, the wait was well worthwhile. The lobby and reception hall are exquisite. It's the most beautiful building in the city, I think."

Lloyd McBride, Senior Partner, McBride, Baker, Wienke & Schlosser, attorneys:

"Now that the exterior of 1550 has been cleaned, it is reminiscent of how it was in the early days. I've lived here for almost 33 years and I'm used to it. It's my home. When I heard the building was going to convert, I couldn't consider moving. Besides the newer apartments don't have the space we have here. I couldn't possibly fit my furnishings into a smaller apartment. The cosmetics of the restoration are impressive and have brought the property back to its original condition. But what has really pleased me is what Bob Sheridan has done to the guts of the building. All systems, electric, plumbing and so forth, have been put in excellent operating condition."

# Chicago Tribune

Friday, February 10, 1978

## 25 units reserved for elderly

TWENTY-FIVE STUDIO apartments in the 468-unit high-rise at 5445 N. Sheridan Rd., which is being converted to condominiums, are being reserved for elderly residents who want to continue renting.

"We are prepared to offer two- and three-year leases," said Robert Sheridan, who is converting the 32-story tower. When those leases expire, renewals won't be guaranteed because the apartments may have been sold by then. However, tenants 65 or older are guaranteed occupancy for the length of the leases, even if the units are sold.

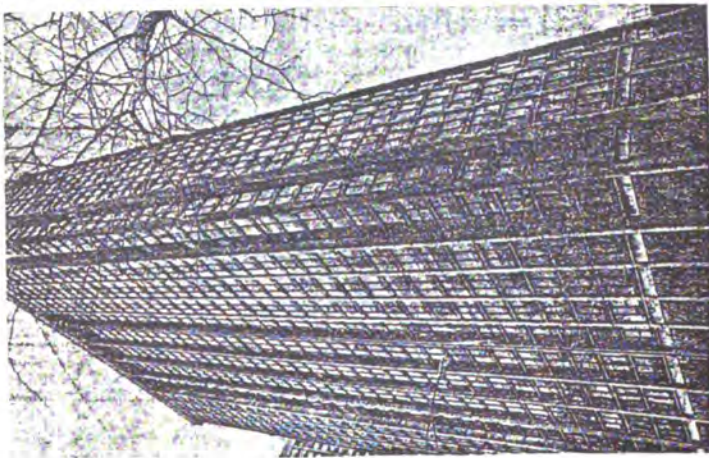
Rents for the 25 apartments will be in line with those charged in the other two buildings in the Edgewater Plaza complex, which remain rental units. On two-year leases, the rents will remain unchanged for the entire term. Three-year agreements will be subject to a cost-of-living increase after two years.

SHERIDAN BELIEVES that the "reserved for elderly" program is the first of its kind in Chicago.

A major objection to the conversion of apartment buildings to condominiums here has been that senior citizens who may have lived in the buildings for years are forced to find other quarters.

The 5445 building was purchased by Sheridan late last year.

Sunday, March 12, 1978



# Condo surprise: The elderly shun an option to rent

By Susan Feydder

A WIDELY held notion among those familiar with condominium conversions is that elderly tenants will suffer the most from the changeover. In fact, the opposite is true. In the case of the 100-story, 1,000-unit Renaissance Plaza in downtown Chicago, the elderly are thought to be the least able to assume the burden of home ownership, and the problem by moving because the conversion trend shows no signs of abating.

The concern surfaced in the Chicago City Council late last year when it passed an ordinance requiring developers to give older tenants at least 180 days' notice to move out. The deadline was set days longer than for other residents.

Yet a recent experience of Robert Sheridan, a 70-year-old retired engineer, what pitting in light of these safeguards.

SHERIDAN PURCHASED said Renaissance Plaza last December and he would convert to condominiums. To date, about 75 per cent of the old one- and two-bedroom apartments have been sold. Because most of the 100 studios were not sold by February, Sheridan decided to wait until the end of the year to move into the new building.

The purpose was twofold, Sheridan said. He wanted to see how the market was doing for ground residents or older.

"The market is not doing too well," he said. "A recent survey has been that (the conversion trend) is a crisis that is leveling the rental market. The fact is that the market is not doing too well."

Robert Sheridan, a widow condo owner, last December and notified the residents that he would convert the building to condominiums. He is now waiting for the residents to move out and the building to be sold. Sheridan has two other conversions in the pipeline.

the developer, I could actively take a role and serve both a public service and business interest."

Sheridan decided the units would be rented on a first-come-first-served basis. He wanted to see how the market was doing with rents in neighboring buildings, he said.

Sheridan offered two- and three-year leases, with the three-year contracts subject to cost-of-living increases after two years. He wanted to see how the market was doing with rents in neighboring buildings, he said.

After residents were informed of the program last month by letter, Sheridan sat back and waited for eager tenants.

"I got a lot of inquiries from people who were interested in the program," he said. "But I didn't get any offers."

Andy Pratt, Sheridan's son, said he had been told that the program was a "hoax."

Sheridan figures that most elderly tenants decided they were better off buying. He said that the program was a "hoax" and that the elderly were not interested in the program.

# -fewer senior citizens to be 'condooed out'

"If young people are, condooed out they can move to  
Humburg, but senior citizens—especially those who have  
ed in the neighborhood for years—do not want their lives  
be disturbed."  
"There's no reason why a good condominium developer  
at set aside rental units in his building for elderly ten-  
its."

Are the winds of change blowing in the cold steel, giant  
d concrete canyons of Midland Condos?  
The quotations above may sound like terse commentary  
in consumer-advocates, but they came from the lips of  
o of Chicago's biggest condominium developers—Harold  
Miller and Robert Sheridan—during exclusive interviews  
th The Sun-Times.

Consumer groups have been taking pot shots at Chicago  
adominion converts in recent months for displacing  
ters—especially elderly persons—from apartments.  
The displacement problem has become severe enough for  
yvor Byrne to urge the City Council to amend the condo-  
nium ordinance with the following proposals:

- Guaranteeing elderly and handicapped tenants seven  
with notice, instead of the current six months, before they  
forced to buy or move out, and extending the grace peri-  
s for other renters from four to six months.
- Forcing developers to pay up to \$300 in relocation costs  
tenant displaced by a conversion.

Meanwhile, Ald. David Orr (6th) is pushing for an  
amendment in the ordinance that would require developers  
eresting buildings with more than 24 units to maintain 15  
r cent of the apartments as rental units. Elderly and handi-  
pped residents would be given priority for renting these  
apartments.

ALTHOUGH ELDERLY tenants have been displaced in  
ne conversions, it's only fair to note that several develop-  
ers have given senior citizens tenants much more than the  
9-day notice required under the existing ordinance.  
At the 2,800-unit Sandburg Village—the biggest condo

Don  
DeBat

Real estate editor

conversion in the nation—Miller, president of First Condo-  
minium Development Co., set aside 10 per cent of the apart-  
ments for senior citizens, wrote two-year leases and put a lid  
on rents.

"The rent freeze will mean \$50,000 savings to senior citi-  
zens at Sandburg Village during the next two years," said  
Miller.

The freeze amounts to a \$900 annual rent subsidy on a  
typical one-bedroom apartment leased for \$250 a month, he  
said. Without the freeze, rent on the apartment currently  
would be billed to \$425. In addition, several "young hardship  
cases" at the complex received freeze rent and one-year  
lease extensions.

Miller noted that the 200 senior-citizen units at Sandburg  
represent \$16 million in potential condominium sales. He said  
ownership of the apartments will be held by his develop-  
ment firm and not sold to investors.

"Every developer in the city should set aside 10 per cent  
of the units for elderly and infirm tenants," Miller said.  
"There's no real economic loss involved. If the developer  
can't afford to set aside a few thousand dollars for senior  
citizens, the conversion is marginal."

Early in 1978, Developer Robert Sheridan set aside 25 stu-  
dio apartments in the 408-unit high-rise at 5445 N. Sheridan  
Rd. for elderly residents who didn't want to buy.

Sheridan gave these tenants two-year leases with rents  
frozen for the full two years. The rents on three-year leases  
are subject to a cost-of-living increase after two years.

SHERIDAN TOLD The Sun-Times the "yearns for elder-

ly" program was so successful, he plans to reserve 10 per  
cent of the apartments for senior citizens in two new con-  
versions: the 200-unit 5150 N. Marion Dr. high-rise and the  
318-unit Raintree apartments west of Park Blvd. between  
Houdevell and Butterfield roads in Glen Ellyn. They're sched-  
uled to hit the market in late July.

In a new 123-unit conversion underway at 30 E. Elm, de-  
veloper Angelo Kleronoomos, president of Downers Grove-  
based Property Concepts, is freezing rents and providing  
one-year lease extensions for the 17 tenants in the building  
who are 65 years or older.

"Providing apartments for senior citizens is a gesture,"  
said Kleronoomos. "It doesn't cost the developer that much,  
but proves we don't have to be greedy."

Social responsibility for senior citizens also is spreading to  
conversions on the North Shore. In a 18-unit conversion at  
800-608 Glenview Rd. in Glenview, elderly tenants who did not  
want to buy were given an option of annual lease renewals  
for life by the developer.

In one case an 87-year-old woman was given a lifetime  
lease at her current rent. Other rents will be increased by  
only 50 per cent of the cost-of-living index, said Elias Lieber-  
man, president of Lieberman, Inc., sales agent for the devel-  
oper, Glenview Condominium Ventures.

"All elderly renters aren't getting thrown out of their  
apartments," said Sheridan, head of Robert Sheridan and  
Partners. "But senior citizens often have special problems.  
And I think condominium developers are beginning to show  
concern because there is a valid problem."

"When the building first converts, a large percentage of  
the elderly tenants don't want to buy. Often it's a state of  
mind, not economics. Sometimes, they just say they are too  
old."

"But just because they are old, it doesn't mean they are  
fools. Elderly tenants who have purchased their apartments  
have done very well. The objective of giving special treat-  
ment to senior citizens is to help those who can't afford to  
buy," Sheridan said.



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## Skyline

### A change of heart—with a very happy ending

"NO WAY WILL we buy a condominium at our age," was Irvin Padnos's comment when he and Mrs. Padnos learned that their high-rise apartment building was being converted.

Anita and Irvin Padnos gave up their large home on the south side of Chicago five years ago when he retired and rented a two-bedroom apartment on the north side.

ALMOST FORTY years ago Padnos created the Party Mart on the south side that featured a special wine collection. As a liquor and beverage house it flourished into a lucrative and reputable business. During this time, Irvin Padnos became widely known as a connoisseur of fine liquors and wines. After he sold the Mart, he and his wife moved to the Edgewater Plaza, a high-rise at 5445 N. Sheridan Road.

When the Padnos's learned of the conversion plans last December, they set out to find another apartment. "We looked and looked around the lakefront area. Whenever we saw a desirable place and neighborhood, landlords offered only one-year leases. That meant just one thing to us—probably a 12% hike in rent each year. In five years that would amount to more than the assessments at 5445, we figured."

But Mr. Padnos didn't cease probing. Being a thorough man, he checked both the rental and condominium markets.

"Some condominiums we looked at just didn't



Their beautiful apartment turned into an adorable home

have a floor plan that pleased us. Long halls or small rooms or too few windows. Those we did like, we weren't pleased with the developer."

MRS. PADNOS added that every time they returned from their search, their apartment at Edgewater looked better and better.

"It's so spacious," she said, "and the giant picture windows on all the outside walls make it seem even larger. And my yucca plant thrives, to the amazement of many of my green-thumbed friends."

Before making a move to buy at 5445, Mr. Padnos also did his homework on Robert Sheridan and Partners as a developer. Sheridan, he learned, has an enviable reputation as a condominium developer. His advertising makes no false claims, he discloses pertinent information about his buildings to prospective buyers, and his contracts are "clean of bugs."

SHERIDAN, who is noted for upgrading the prop-

erties he develops as well as attractive pricing, has planned a program of improvement for 5445 that includes new landscaping, interior improvements, night lighting for the tennis courts and tightened security. He was also instrumental in the conversions of the 1000 Lake Shore Drive complex, 1240 Lake Shore Drive, 3730-40 Lake Shore Drive, and most recently, 1550 State Parkway.

Because the Padnos's were guaranteed 180 days occupancy after the conversion announcement in December, they had en-

ough time to weigh the advantages.

"We finally decided to buy," said Padnos, "because we are content with the apartment and we are comfortable with Robert Sheridan as the developer. And instead of throwing away rental dollars, we will be building equity. Also we are near our children and close (only 30 minutes) to downtown where we can take advantage of Chicago's many cultural activities."

THE PADNOS'S seem to be happy with their apartment home overlooking the skyline. What do they do with their days? Frequent trips to the Field Museum for Mrs. Padnos. Her husband is writing a book on liquors that he is in the process of editing for publication. And occasionally he putters in his closet hideaway workshop.

"And don't laugh," added Mrs. Padnos, "we both enjoy bike riding. We wheel up and down the lakefront in clement weather to get our exercise and enjoy the outdoors."



Robert Sheridan

ROBERT SHERIDAN & PARTNERS

TESTIMONY OF ROBERT SHERIDAN

MANAGING PARTNER, ROBERT SHERIDAN AND PARTNERS

CHICAGO, ILLINOIS

INTRODUCTION

ROBERT SHERIDAN & PARTNERS--a Chicago-based real estate development and investment company--is a group of partnerships which, taken together, constitutes one of the nation's leading condominium developers.

We have gained a reputation for quality and fairness. This distinction is very important to us. We believe it has been earned as a result of the way we do business.

- We treat others as we wish to be treated.
- We do a comprehensive and extensive job of upgrading our properties.
- We are committed to the concept that a condominium developed by us will be a much better residential home than it was as a rental unit.
- + Our pricing policies are equitable.
- We do what we say we will do.
- We care.

We include in this presentation a booklet, "Answers To Some Questions You May Have About Buying A Condominium," which was prepared by us to aid the residents of our conversion properties, who would be prospective purchasers. (Attachment A).

We are also including copies of letters received from some of our condominium purchasers, comments from residents on the "restoration of 1550 State Parkway," and a newspaper reprint, "A Change of Heart--With A Very Happy Ending." (Attachment B).



1. Conversion Activities and Operations

The chart on the following page lists all of our conversions to date, the number of units in each building, and the dates of conversion. Further, it indicates the approximate percentages of units purchased by (a) existing tenants, (b) owner-occupants, and (c) non-occupant owners.

None of the buildings we have acquired has contained units which were subject to rent control or rent stabilization at the time of purchase. When using a capital basis of present market value, none of the buildings we have acquired provided anything approaching a market rate of return as a rental building.

While no formal studies have been performed by our company which deal only with the displacement of tenants, our experience tells us that a large number of residents generally buy their homes. Most studies we are aware of that discuss displacement do so in the context of rental housing stock or some other larger issue.

Taking into consideration those tenants who do not wish to purchase, in recent conversions we have established what we call a "relocation task force," the purpose of which is to investigate the area and compile information about other buildings--rents, apartment size, availability, etc.--to assist those tenants who do need to find other housing. Hardship cases are also taken into consideration,

Property and Location	Number of Units	Date of Conversion	Existing Tenant Purchasers (%)	Owner-Occupant Purchasers (%)	Non-Occupant-Owner Purchasers (%)
Park Tower Chicago, Illinois	728	11/78	35	50	15
5445 Edgewater Plaza Chicago, Illinois	463	1/78	40	54	6
3730-3740 Lake Shore Drive Chicago, Illinois	61	6/77	40	55	5
5100 Marine Drive Chicago, Illinois	300	7/79	50	20	30
1550 State Parkway Chicago, Illinois	46	8/77	50	44	6
Waintree* Glen Ellyn, Illinois	318	6/79	18	N/A	N/A
Hamilton House Knoxville, Tennessee	101	6/78	35	54	11
The Philadelphian on the Parkway at the Art Museum Philadelphia, Pennsylvania	776	8/80 (sales not completed)	76	N/A	N/A
Park City West Philadelphia, Pennsylvania	344	1/81 (in progress)	N/A	N/A	N/A
The Dorchester on Rittenhouse Square Philadelphia, Pennsylvania	537	12/79	52	28	20
Sutton Terrace Bala Cynwyd, Pennsylvania	171	12/79	56	39	5
The Barclay in Buckhead Pines** Atlanta, Georgia	112	4/79	40	N/A	N/A
Round Hill** Atlanta, Georgia	130	7/79	38	N/A	N/A
Lido Regency Sarasota, Florida	85	10/79	45	35	10
The Ambassador on Lido Beach Sarasota, Florida	76	6/78	50	47	3
89 Oceanfront Condominium Ormond Beach, Florida	95	3/80	55	30	15

\*All units not purchased by existing tenants were sold to a partnership for resale purposes.

\*\*During the process of conversion, our institutional partner purchased our interest, and we do not have access to the ultimate results.



and, where possible, we have expended special efforts to accommodate certain individuals, i.e., with longer term leases at special rents or with additional financial help if they are relocating.

2. Relationships with Banks and Thrift Institutions

The conversion process usually entails three separate types of financing. First, there is the equity provided in the majority of cases, by an institution. Second, there is the senior or "bridge" loan, which may be provided for by a bank, savings and loan, mortgage broker, or insurance company. End loans are the third type, and a product of the mortgage market. During times of lower interest rates, end loans generally are not provided by the developer since purchasers can easily obtain their own mortgages.

Generally, the only limitation on non-occupant owner purchases are part of the end load commitment. If the lender plans to resell the mortgage into the FHLMC or FNMA markets, then those requirements would control. If the lender plans to maintain the portfolio, then it would be a matter of its own underwriting specification, which may or may not put a limitation on non-occupant owner purchases.

In dealing with Federally-supervised and state-supervised institutions, we have found no meaningful differences between the two.

Information concerning the financing process, which includes "points", commitment fees, and rates of interest that are in excess of prime are still being compiled, and will be provided to the Subcommittee as soon as available. The short amount of time available to compile this response has made that job difficult.

3. Impact on Conversions: Housing Costs, the Neighborhood, and the Rental Market

The costs of labor, materials, land, and all other aspects of the real estate industry have risen, but our industry is not isolated. The costs of food, clothing, and all other essentials have also risen dramatically. We feel that conversions merely reflect these inflationary times--they are a symptom, not a cause.

In a market study conducted by Shlaes and Company--Condominium Conversions in Chicago: Facts and Issues (1979)--it was concluded that, as prices climbed on close-in, lakefront property, households began to move to neighboring communities.\*/ This shift of people brought with it an "increase in rehabilitation activity and a sharp improvement in the physical appearance and morale of the receiving neighborhood." Building repair, remodeling and reconstruction permits increased for the Uptown and Edgewater areas from \$222,640 in 1971 to

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\*/ The attached Schedules (1, 2, and 3) are excerpted from the Shlaes study, emphasizing our point of view on conversions versus inflation and the effects on the neighborhood.

\$2,989,769 in 1978. So, while the pre-tax cost of housing may initially increase, we see two major offsets: (1) the improvement in the neighborhood and (2) the quality of the property itself.

The best way we can respond to the question of cost of renting versus owning in a building that has been converted is shown in the following examples, each of which provides a net monthly cost analysis for three specific units in our Philadelphia properties:

UNIT NO.:	ANALYSIS A	ANALYSIS B	ANALYSIS C
	1708	2211	1210
TYPE:	sm. 1-bd	deluxe 1-bd	2-bd.-2-bath
SQ. FT.:	611	919	1218
RENT AT TIME OF CONVERSION:	\$370	\$530	\$665
RESIDENT DISCOUNT PRICE:	\$45,900	\$64,935	\$86,400
RESALE PRICE:	\$63,500	\$94,000	\$133,000
PROFIT OVER:	8 mos. \$17,600	8 mos. 29,065	7 mos. \$46,600
NET COST PER MONTH			
36% BRACKET:	\$441	\$614	\$825
42% BRACKET:	\$402	\$560	\$752
50% BRACKET:	\$351	\$487	\$655

In terms of the cost of being an owner versus a renter, these analyses conclude that the amount the resident was paying at the time of conversion compared to his net cost per month, in any one of three tax brackets, did not drastically increase. In fact, in

some cases, the net cost per month was less than the rent the resident was paying. This is especially true when you consider the scheduled rent increase that the resident would have received had he continued to rent.

There are some important facts that should be noted:

In an effort to make homeownership affordable for the resident, we have always offered substantial discounts. These prices provide the resident with the opportunity to purchase his or her unit at well below market prices. At the same time, the resident has the knowledge that he is purchasing a home in a quality building, with the added benefit of equity and appreciation build-up versus renting, while keeping the net cost per month in approximately the same price range as current or what soon would be scheduled rent.

We recognize that the resident must first be in a position to make a down payment and qualify for a mortgage. It is for this reason that we have consistently offered below market interest rates as well as 80% and 90% financing to assist the resident in purchasing a home which is of particular value to the young resident who is a first-time home buyer.

Another important factor to consider is that we have always offered the tenant the opportunity to switch to another home within the building and still receive the discounts. Although this is a difficult procedure that many developers choose not to undertake, we have always felt that it was necessary to allow the resident the opportunity to purchase a home tailored to a specific financial need. It has been our experience that some residents do choose to purchase smaller units, but the majority have upgraded to larger units.

The percentage increases in rental costs to persons leasing units from non-occupant owners reflects market forces and supply and demand. However, this does not necessarily mean that rents are automatically increased by non-occupant owner purchasers. As a specific case in point, in one of our Philadelphia conversions, we learned that non-residents who wanted to purchase were offering three-year leases without increases--plus substantial cash payments--as incentives for residents (who chose not to purchase) to sign waivers over to them in order for them to purchase the units. Rental demand has softened significantly in many U.S. cities and, as a result, rent increases have shrunk or disappeared.

4. Policies: Non-Occupant Owners/Other Developers' Properties

At the point in time that apartment units are placed on the open market for sale, discrimination against non-occupant owners has no role in our sales policy. Once the units have been offered to tenants, it is then our usual policy to sell those units that are still available to any qualified buyer. These qualifications generally do not include residency, but rather financial capabilities. Buying interest on the part of investors varies with individual properties, and is generally a function of the "mix" of units as well as market conditions.

The sales policy with regard to non-occupant owners comports with the requirements of the Federal Home Loan Bank Board, mortgage insurance companies, and secondary mortgage market institutions, when and if such requirements apply.

It is not a policy of our company to purchase units in conversion buildings of other condominium developers.

5. Non-Occupant Owner Purchases/Rising Housing Costs/Inflation

Non-occupant owner purchases in units in buildings converted by our company do not contribute to rising housing costs or housing inflation. The housing market is much like the stock market. The basic law of supply and demand determines prices.

As for treating non-occupant owners in condominium units differently than anyone else involved in housing, the answer is emphatically NO. Mortgage loans, tax deductions, loan to value ratios are all incentives, not only to the investors, but also to the developer, builder, and the single-family home buyer. It is our feeling that if the rules are to be changed, they should be changed for all those involved in the real estate industry. But to change the rules would be to change the market place to the point where homeownership would probably cease to exist.

The widely held view that owner-occupants are preferable to renters is probably true to a degree. It is our belief that a mix of both types, if not preferred, is unavoidable--particularly with legislation providing lease extensions for the elderly. The risk of default is not a problem in most of our buildings, as they are luxury buildings, with the purchaser being qualified financially to buy the individual units. The attitude of the owner-occupant is the reason for preference, as he or she is usually more conscientious about improving the property. But the investor is a definite ingredient to

unit mix, for the investors provide the rental pool. Therefore, a converted building with a good mix succeeds in providing two things:

One, it provides units for people wishing to own their own home, and who, like any other homeowner, will maintain and improve on their own quality of living. And two, it provides units for investment, therefore keeping units in the rental market.

From our dealings with mortgage insurance companies and lending institutions, we have found their views to very much coincide with ours. They, also, have a preference toward owner-occupants, but recognize a good mix of owners and investors is a market reality. Further, we should recognize that the mix is not static--and generally, a building will evolve into a balance. Over time, "non-occupant owners" will be replaced by owner-occupants.

6. Management Arrangements/Other Leases

The typical management arrangement of our firm is geared to aid the tenant in his or her transition into homeownership. It usually consists of the following (applied to all properties listed above):

- a. The contract begins the first day the unit is conveyed and ends twelve months thereafter.
- b. The contract will run from year to year unless cancelled by either our firm or the Tenant Association. (Generally this is a 90-day notice of termination for either party.)



c. Included in the term management are the following duties:

- (1) collect assessments due the Association;
- (2) maintain records showing receipts and expenditures relating to the Condominium and prepare monthly statements;
- (3) prepare and present a proposed budget to the Board;
- (4) submit to the Council, seventy-five days after the end of each calendar year, a summary of receipts and expenditures;
- (5) maintain, subject to the direction of the Board, the Common Elements of the Condominium;
- (6) hire, pay, negotiate collective bargaining agreements, supervise and discharge personnel required for maintenance, along with filing any returns that may be necessary, subject to the direction of the Board;
- (7) negotiate, on behalf of the Board, contracts for water, gas, telephone and such other services for the Common Elements;
- (8) pay, from the funds of the Association, all taxes, inspection fees, water rates, and other charges incurred by the Association;
- (9) coordinate the schedules of purchasers with regard to moving personal effects into the Condominium;
- (10) maintain appropriate insurance records for insurance coverage carried by the Association; and

- 12 -

- (11) provide a General Manager and bookkeeper, who is paid by the Association. (The General Manager attends meetings of the Council or Association as requested).

The Association pays, on the first of each month, a fee, usually equal to \$10 per unit, to the Agent for the above-listed services. Beyond the services listed above, there are no other leases or contracts with the Condominium Association.

7. Lawsuits Against Robert Sheridan & Partners

Robert Sheridan and Partners has been involved in the following litigation:

The Philadelphian. Suit was filed against H.U.D., the owners of the building, and Robert Sheridan and Partners who had entered into a contract to purchase the building. The Court ordered settlement on the property and directed Robert Sheridan & Partners to put \$500,000 in an escrow account. We believe that this matter is now moot.

The Terraine. The Terraine was purchased after a new local ordinance was introduced, but, before the ordinance was passed, Robert Sheridan & Partners undertook substantial renovation of the building and paid various tenants substantial amounts when they moved out. One tenant received an \$11,000 payment upon vacating an apartment. A summons has been issued, but no complaint has been issued. We are not exactly informed concerning the plaintiff's allegations. We believe that plaintiffs will argue that the proposed ordinance will apply to the Terraine despite the fact that it was not in effect when we purchased the building.

The Dorchester. Suit was filed contending that an ordinance which was introduced after the Dorchester was converted to a condominium but was not passed until after the conversion was completed covered the Dorchester. We provided additional disclosures to the tenants and the suit was dismissed.

Sutton Tower. We submitted a proposed "declaration" which would convert Sutton Towers to a condominium. The county ordinance provided that the declaration would not be effective until accepted and approved by the county circuit. When the county did not issue an approval, litigation followed which was settled.

Additionally, we have been involved with some litigation concerning finders fees for buildings which we have bought and for accountings for profits.

8. Displacement of Elderly or Handicapped Tenants

The displacement of the elderly and handicapped as a result of condominium conversions is one of the truly sensitive issues faced by developers. In addressing this problem, we believe we were first to introduce a special rental program for senior citizens, which occurred in early 1978 with our conversion of 5445 Edgewater Plaza in Chicago, Illinois:

- a. Twenty-five units were reserved as rentals on a first-come, first-serve basis;
- b. Leases on these units were offered for either two or three-year terms (at a time when one-year leases were the industry standard); and

c. Rents were at the then-current market rate--in line with rents in neighboring buildings.

To our amazement, despite all of the pressure to provide rental units for the elderly, fewer than twelve residents availed themselves of the program. What is significant, however, is that a large number of children of elderly residents purchased units in their parents' behalf. Attached is a copy of an article from the Chicago Tribune announcing the program, and a copy of a subsequent article on the reaction to the program. Also attached is a copy of an article from the Chicago Sun-Times entitled, "Fewer senior citizens to be 'condooed out.'" and a copy of a letter from a nursing home administrator and advocate for our Older Americans.

While the foregoing represents our historical approach to the issue of displacement of the elderly, we do feel the present level of local and state involvement (in the areas of our operations) has generally been positive. In all of our conversions, we have fully complied with either local or state requirements.

Mr. SHERIDAN. Obviously, as indicated by your comments, Mr. Rosenthal, you have been going at this since early this morning. As a result, my colleagues and I are going to try to address the issues in as brief a way as possible, hitting the major issues and keeping the elaboration perhaps in response to the questions that might come from the subcommittee.

Having said that, I also have to express a personal disappointment on behalf of the council at the obvious bias of the earlier panels earlier in the week, allegedly representing tenants or tenant associations and the systematic exclusion of people who have lived through the process of conversion.

We believe the latter could provide this subcommittee with views that are based on several years of experience and not several weeks or months of perceptions.

Unfortunately, that has not happened.

I do not mean to minimize in any way the personal trauma that is suffered by some individuals in this process. I know how they feel. I have talked to many of them face to face, and I have worked with them to resolve their problems.

But as real as their problems are, they are neither a majority nor even a large minority of the total spectrum of residents who have been involved in the conversion process.

I would respectfully submit that the committee's judgment would be objectively enhanced if you had the benefit of either written or verbal testimony of people who have lived through the process for several years to develop a more complete perspective of how the process works and affects the citizens.

For openers, practically all current supporters, and I am speaking now of resident owners, of the condominium process will tell you that initially they had no interest in buying their apartment and had views not unlike a lot of the testimony you heard earlier this week.

But with the benefit of this kind of perspective from citizens of many walks of life from different parts of the country, I will trust in your conclusions that you will not find the need to throw the baby out with the bath water.

Briefly, in terms of the condominium process, the benefits are that condominiums are providing a type of housing that is generally no longer available in quantity, in terms of the single-family detached market.

The condominium conversions have been responsible for significant upgrading of the quality of urban housing stock.

Third, the condominium conversion process is responsible for providing cities with significant increases in real estate taxes over what is essentially a relatively short period of time.

Even though this process is relatively young, the numbers are so compelling that they cannot be swept under the collective city council rug.

Fourth, condominium conversions are important as a jobs issue. I mean that in two ways:

First, jobs from the standpoint of the work that goes on in terms of upgrading these properties.

Second, and probably collectively an even greater number, is the impact economically within the community once people have

become owners and decide they are going to start to upgrade apartments.

In some cases, they have lived in them for 30 years. But only when they become owners, do they have that sense of willingness to make this deeper economic commitment.

The biggest issue in terms of jobs, acknowledging Mr. Peyser's comments earlier today, is the need on the part of cities to provide quality housing to the upper middle and upper bracket segment of its community, because they control jobs. They control where the factories are located.

If you do not provide quality housing, those people will find it. If it is 30 miles out of the city, they will move 30 miles out of the city. When they do that, you can rest assured that within a very short period of time, that factory will follow where they move. The boss isn't going to travel an hour and a half. He only travels 20 minutes.

Fifth, condominium conversions are responsible as a stabilizing force in the communities. Owners have a greater sense of commitment. This is demonstrated time and again.

Condominium conversions are responsible for a significant redistribution of wealth to tens of thousands of Americans of assets that were formerly owned by a few hundred.

Last, condominium conversions are responsible for providing a safer environment for its residents, which is of particular value to the elderly.

But as with any other major program or project, there are problems. But these problems, although significant and painful to the individuals involved, are isolated.

We believe you will find that the benefits of condominium development outweigh these problems, and that local communities are able to deal with those problems in a manner that responds to local issues with local solutions.

To the extent that there are problems left unsolved, we feel that workable solutions to these problems; namely, an industrywide code setting forth guidelines and standards of conduct for condominium developers, is a necessity.

I will be delighted to elaborate later in the testimony on the industry plans in this regard.

Now I would like to yield to Geoffrey Stack, who will discuss more specifically the benefits of condominium development, and then to Harold Miller, who will discuss some of the perceived problems.

Mr. ROSENTHAL. Mr. Stack?

**STATEMENT OF GEOFFREY STACK, PRESIDENT, REGIS HOMES, INC., NEWPORT BEACH, CALIF.**

Mr. STACK. Mr. Chairman and members of the subcommittee, my name is Geoffrey Stack. I am president of Regis Homes and a director of the National Multi-Housing Council.

In addition to my oral statement today, I would also like to submit my written statement on behalf of Regis Homes for inclusion in the record.

Mr. ROSENTHAL. Without objection, it will be included in the record.

Mr. STACK. Regis Homes is headquartered in Newport Beach, Calif. We currently have additional divisional offices located in San Francisco, Denver, Chicago, and Austin, Tex.

Regis Homes and its predecessor company have been involved in condominium conversions since 1975. I personally have been involved in conversions since 1973.

From 1975 until now, we have converted a total of approximately 5,000 units, with approximately 2,300 additional units in the planning stages.

Condominiums, in my opinion, have given home buyers the affordable housing opportunities they are demanding and have greatly benefited local communities.

Condominiums have provided many people who might have remained lifetime renters with the opportunity to become homeowners.

As homeowners, they can take advantage of the tax deductions and equity accumulation which renting simply cannot provide.

Mr. Chairman, you have heard some people complain today and earlier this week about the cost of owning compared to the cost of renting before conversion.

There may be a difference initially, and usually there is, but when several important factors are taken into consideration, I think that difference is not as significant as it might initially appear. This at least has been our experience.

First, along with homeownership come very substantial tax advantages, which allow deduction of interest, which is the largest portion of the monthly mortgage payment in the first several years, and real estate taxes.

In our experience, and I think that you'll see the numbers in the supporting testimony I have submitted over the conversion of 5,000 units, the average after-tax costs increase of owning a unit versus renting a comparable unit has been basically 8 percent.

Second, in this period of high inflation, the cost of renting, in the absence of total rent control, will probably continue to increase along with the cost of food, clothing, medical care, and most other things.

Rent is simply a reflection of operating costs. As the cost of fuel and maintenance increase, so will rents.

Owning a condominium unit gives the buyer the security of a relatively stable housing payment over time. Over the period of the last 5 years, in our company, we have seen the rents for comparable units in areas where we have done conversions increase approximately 53 percent over what they were at the time we completed the conversions.

A renter, therefore, is now paying rents which are 53 percent higher for the same basic product with no residual value attributable to his rent.

In a rental situation, I very strongly believe that the only one who really benefits economically in the long run is the landlord.

With insufficient production, inflation, and high interest rates driving up the cost of homes, the opportunity for homeownership has become more and more remote. For many people it is simply an unattainable goal.



According to the HUD condominium study, the median cost of existing single-family homes rose 133 percent between 1972 and 1980. New single-family homes rose 134 percent.

During the same period, median-family income rose 95 percent, which is less as you can see, than the increase in single-family housing costs.

Over the past few years, condominium conversions have provided affordable housing opportunities for many people and will continue to do so. They provide the only reasonable alternative to renting for a very large segment of the population.

In southern California, for example, today, the average cost of a new single-family home in Los Angeles County is \$165,000. The average cost for a new condominium is \$125,000.

We have a project in the San Fernando Valley which is townhouses with a few stacked units where the average price is \$92,000. As you can see, that is significantly less than anything else on the market. It affords an ownership opportunity for a significantly larger group of population than would normally exist without that particular conversion.

In Orange County, a new single-family home costs on the average \$186,000. A new condominium costs \$122,000.

In LaHabra, Calif., we have a project which we opened up about 3 weeks ago where the average price for a unit is \$68,000.

In northern California, we are doing a project in Santa Clara County.

Mr. ROSENTHAL. These are all new construction condominiums.

Mr. STACK. These are new construction.

The figures come from the Residential Research Council.

Mr. ROSENTHAL. These aren't conversions.

Mr. STACK. In L.A. County, the conversion is selling for \$92,000. We are lower than most other conversions. I can't tell you the exact amount, because I don't have sufficient data.

Mr. ROSENTHAL. The other ones you were talking about were new construction.

Mr. STACK. I am comparing it with new construction. I don't have sufficient data for resale. However, the resales I can tell you generally—

Mr. ROSENTHAL. These were not the kind of apartment buildings that Mr. Gouletas was involved in converting. These are single family.

Mr. STACK. I mentioned both single family and condominiums.

For a new condominium, stacked or townhouse, today in L.A. County, the average price is \$125,000. We are selling a project at an average per-unit price of \$92,000.

In Orange County, the average price for a new condominium is \$122,000. We are selling a project now with an average price of \$68,000 per unit.

Mr. ROSENTHAL. The committee was focusing on condominium conversions of existing structures. That's not what you're talking about.

Mr. STACK. My point is that by converting the projects that we are doing today, we are providing ownership housing to people for significantly lower prices than would be available if these conver-



sions did not exist. These are people who want to buy something. They want to own something.

The median price nationwide for a condominium is less generally than that of a single-family home. Thus condominiums, as a rule, can provide a more affordable homeownership option for a wide variety of people.

Many people who might otherwise be excluded from the opportunity of purchasing a home of any sort would be excluded entirely, were it not for condominiums.

For example, the HUD study which most of you are familiar with, showed that 57 percent of condominium owner-occupants are single persons, whereas only 14 percent of all homeowner-occupants nationally are single.

Thirty-five percent of condominium buyers are single women, compared to 10 percent in the detached single-family home market.

Our own experience, particularly in California and in Illinois, has been that about 40 percent of our current buyers today are single or divorced women on limited incomes.

Approximately 10 percent of all owner-occupants of condominium units are black, compared to 7 percent of all owner-occupants of single-family homes in the Nation.

While many, perhaps even a majority of condominium purchasers, were reluctant initially, and I think this is certainly true, the HUD research data that was prepared shows that when surveyed a year later approximately 90 percent of the people were happy about their purchase. These were condominium purchasers in conversions.

Mr. NEAL. The figures you have been using in your testimony, are they figures concerning only new construction?

Mr. STACK. Only conversions.

Mr. NEAL. These are all conversions.

Mr. STACK. Yes.

These last few specific numbers came from the HUD study.

Mr. NEAL. So you are saying that the average price of a conversion is much less than the average price of a newly constructed condominium.

Mr. STACK. Absolutely.

I can only really speak for California where we have very good data.

Historically, in Orange County, Los Angeles County, and northern California, resales of condominiums of any sort generally very closely approach the price of new units.

A great deal depends on the location and the quality of the unit.

But the numbers I have heard are that resales are usually within 10 percent of the prices of new housing. That certainly would differ in different locations.

For example, there are few, if any, new projects even being built in the city of San Francisco. Resales there are probably higher. But normally within 10 percent is a fair assumption.

The numerous benefits of condominium conversions have a positive aspect on local communities. The greater number of residential condominium conversions have taken place, in fact, in major metropolitan areas. I think that was brought out very clearly this

morning. We think conversions have helped to preserve and upgrade the housing stock in these areas.

The condition of most buildings which our company has converted have been significantly improved. In fact, we were doing some quick numbers this morning. We have estimated that in my company we have spent about \$25 million over the past 5 to 6 years on substantial rehabilitation of projects.

I could get into that in more detail if you would like.

Condominium conversions have generated additional property tax revenues which help to ease the budget problems faced today by many local communities.

Mr. ROSENTHAL. Mr. Stack, you heard the testimony of Mr. Ashley and the former Governor of the Federal Reserve Board, Mr. Brimmer. Is there anything you would want to add or comment on or say something different or new?

Mr. STACK. I am not sure specifically. In general, no, because very frankly I didn't hear all of their testimony.

I am not sure specifically what you are referring to.

Mr. ROSENTHAL. Is there something you can tell us that is new or different than what we have heard this morning, other than the HUD study, which we have all had an opportunity to read, something that you bring personally from California?

Mr. STACK. I think that I just did that in terms of discussing the lower prices we are producing in existing conversions today in the three areas in California.

I have some tax numbers here from both Mr. Sheridan and myself which we think are also significant in terms of the revenues that they generate to local communities.

I think that this is critical when today so many local communities are losing a number of their revenue sources from the Federal Government.

I know in my State, it is very critical.

I would like to go through that. Then I could probably speak more definitively at the end of Mr. Miller's testimony on anything from the rehabilitation that we have done to additional values we have created, or some other specific things.

Mr. LEVITAS. Mr. Chairman, rather than go through that, since the witness has already referred to the HUD report, if he could just explain why the HUD report is wrong when it says that with some exceptions, conversions do not appear to generate substantial windfalls to local jurisdictions.

Mr. STACK. I would like to elaborate on that point.

Mr. LEVITAS. I think that is the only significant thing here.

Mr. STACK. I am getting right into that.

An example of this is a property which Mr. Sheridan and his affiliates are currently converting in Philadelphia.

As a rental building, that property yielded the city slightly under half a million dollars in taxes in 1979. In 1981, after the conversion, the building will yield approximately \$2.4 million in property taxes paid by the owners of the individual units.

In addition, \$880,000 in transfer taxes were paid to the city and an equal amount to the State, upon purchase by them for conversion.

They estimate that sale and resale of the condominium units will provide between \$300,000 and \$500,000 in additional transfer tax payments per year in the future.

In our own projects, that is in projects which we have completed, not projects that are still ongoing, we have estimated that the increased tax revenues generated by the conversions we have done are approximately \$2.7 million annually over and above the initial taxes that were paid as a rental property.

It is very hard to totally quantify what those taxes, particularly in some States like California, would be if the property had stayed a rental because of proposition 13. They may not have gone up, and we might be talking about decreased revenues.

So I simply took the numbers that were existing prior to conversion and took the numbers of the taxes that are being generated today. I think that is a significant number.

Very frankly, in California and in Colorado, it is something that I increasingly hear local and State governments responding to because they have their backs to the wall in terms of revenue they can generate.

We feel that the advantages of condominium conversions are numerous. The growth of condominiums, however, has been a recent phenomenon, particularly conversions. It, obviously, has not been without growing pains. I think we have some issues which we have to address as an industry.

Mr. ROSENTHAL. Do you have problems with the displaced persons like the Gouletas people do?

Mr. STACK. I have not because the vast majority of the projects we have done have not had many elderly people. This is particularly true in California and Colorado.

Mr. ROSENTHAL. Have no elderly people.

Mr. STACK. I am talking about people in excess of 60 years.

Mr. ROSENTHAL. You are the oldest person in the community.

Mr. STACK. In California and Colorado, the average turnover of apartments is 50 to 60 percent per year.

Mr. ROSENTHAL. It is not like in Philadelphia.

Mr. STACK. It is not like Philadelphia. It is 50 to 60 percent a year.

There have been a couple of exceptions, but the majority of the projects we have done have been garden apartment projects.

Mr. ROSENTHAL. That's what I thought.

Mr. STACK. We have done one midrise, and we have done some quasi-garden apartments which are three-story with elevators.

We have not specialized in high-rise conversions. What we do is a different animal. It takes more work. You sell fewer to the tenants. Your tenant turnover is generally far higher.

At least in the areas where we have converted, the vast majority of people who buy in our units are first-time buyers, generally in excess of 80 percent. It is around 81 percent.

Mr. ROSENTHAL. May we go to Mr. Miller now?

Mr. NEAL. May I ask one question first, Mr. Chairman?

I am not clear on this. You probably covered it many times, but I am just not aware of it.

Why do apartment owners not convert their own apartments if they want to convert them to condominiums. Why do they sell?

Mr. STACK. There are two answers from my point of view. One is the tax issue. By doing that, they would become in effect a dealer, and their gain or profits would be treated as ordinary income.

If they sell, generally, to somebody like me or to a group of tenants, or whomever, they get a capital gains treatment.

The second reason is probably equally as important, although it is not touched on as often. That is, this is a business which takes a great deal of time and effort. It takes a significant amount of financial expertise and marketing expertise.

In our company's case, it takes an enormous amount of construction expertise.

Most owners don't have that expertise, nor do they want it. So they are perfectly willing to sell to somebody like myself to convert the property.

Mr. SHERIDAN. It is a vastly different business, Mr. Neal, from running an apartment complex.

[Mr. Stack's prepared statement follows:]

TESTIMONY OF GEOFFREY STACK  
PRESIDENT, REGIS HOMES, INC.  
NEWPORT BEACH, CALIFORNIA

Before the Subcommittee on Commerce, Consumer, and Monetary  
Affairs of the Committee on Government Operations

United States House of Representatives

Hearings on

Condominium and Cooperative Conversions

April 1, 1981

I. INTRODUCTION

Mr. Chairman, members of the Subcommittee, my name is Geoffrey Stack. I am President of Regis Homes, Inc., whose headquarters are in Newport Beach, California. We currently have additional offices located in San Francisco, Denver, Chicago and Austin. Regis Homes and its predecessor, The Richards Group, have been involved in condominium conversions since 1975. From then until now we have converted a total of approximately 5,000 units, with approximately 2,300 additional units in the planning stages. The specific numbers and locations of these units are provided in the attached table (Table I). Since the inception of our activities only one of the projects which we have converted had stabilized rents. This was The Belmont in Belmont, California containing 228 units. It was originally built under the FHA 236 program.

To the best of my knowledge, none of the buildings which we have purchased to convert were unsuccessful as rental buildings, with the possible exception of the rent stabilized building. Generally, a project which is unsuccessful as a rental project does not make a good condominium conversion for the simple reason that its lack of success as a rental is usually a good indication that there is something the matter with the project or the location, which makes it less desirable to people. Certainly there are exceptions to this rule, but generally unsuccessful rental projects do not make good conversions.

Although none of the projects which we have purchased to convert was clearly unprofitable as a rental project, with the possible exception of the one project built under the FHA program with regulated rents, most of the projects which we have purchased have been in need of substantial rehabilitation and refurbishment which the sellers were unable to afford within the then present rental structure of those buildings. Because the projects were worth more as condominiums than as rental units, we were able to afford to do a substantial amount of rehabilitation work which the previous owners could not afford. Examples of this type of work are:

1. Installation of thermalpane or double storm windows and doors in projects located in colder areas of the country.
2. Additional sound proofing and energy saving insulation in attics and between units.

3. Additional fire-wall construction between units.
4. Addition of new siding to provide extra energy saving advantages for projects in colder climates.
5. Installation of central air conditioning.
6. Construction of additional recreational facilities ranging from tennis courts, volleyball courts, childrens play yards, swimming pools & jacuzzis.
7. Resurfacing of roads and parking lots.
8. Construction of garages.
9. Installation of new roofs or major roofing repairs.
10. Re-plumbing of buildings.
11. Construction of storm sewers.
12. Installation of security systems.
13. Total refurbishment of the interiors of units including: new carpeting, new drapes, new appliances, new paint, new cabinets and new resilient flooring.

All of these improvements have substantially increased the value of the projects which we have converted, and many times reversed a project's steady deterioration in quality due to the previous owner's inability to undertake these improvements as a result of the financial constraints of the cash flow of the project as a rental property.

In the approximately 5,000 units which we have converted, or are in the process of converting, our retention of tenants has ranged from a low of 0% to a high of 68%. The average retention in all of the projects which we have converted is 17%. Our levels of tenant retention may be lower than those experienced by others in the industry, but this is probably because, with the



exception of Illinois, the areas in which we are doing most of our conversions historically experience tenant turnover on the average of 50% to 60% a year. This being the case, fewer tenants tend to buy in such areas compared to the Midwest and the East where tenants do not normally turnover at the rate of 50% to 60% a year. Approximately 80% of our buyers are first time buyers who either live at the conversions or are moving into our projects from another apartment, so even if we have a lower percentage of tenants purchasing their units, the units being purchased by non-tenants tend to be purchased to a great extent by people who are tenants in other projects. Therefore, as they purchase a unit and move into our project, they normally are vacating another rental unit in the same general geographic area of that specific project. This fact, coupled with the normally high turnover rate of renters in most garden apartment projects, serves to show that there is very little permanent displacement of tenants.

## II. ROLE OF INTERIM AND PERMANENT LENDERS IN THE CONVERSION PROCESS

Our company's relationship with commercial banks and thrift institutions in financing conversions is generally the same as that of any producer of "for-sale" housing throughout the country. When we purchase a property, we normally finance a portion of that purchase and the attendant conversion expenses through an interim conversion loan with a commercial bank. On all of the



conversions in which we have been involved we have paid an interest rate in excess of prime. Normally our cost of money is  $1\frac{1}{2}\%$ - $1\frac{3}{4}\%$  above the prime rate.

For each project we convert we generally purchase a permanent loan commitment for our buyers from a savings and loan or thrift institution. The exception to this rule is when we buy a larger commitment which can be used for a number of projects in a specific geographical area. At the time we purchase such a commitment we normally pay a commitment fee in return for the lender agreeing to set aside the amount of funds we need. This is a standard procedure in the savings and loan industry and is used for almost all instances of residential "for-sale" housing. The normal amount of such fee is 1% of the dollars set aside for our buyers.

When we convert a project we are then able to provide our buyers, if they so desire, with end loan financing. At no time are they under any obligation to deal with the lender from whom we purchased the permanent commitment. However, as a result of the fact that we purchase a large number of end loan commitments, we are usually able to negotiate a rate for our buyers which is better than the rate an individual buyer can negotiate on an over-the-counter basis with a savings and loan. When the buyer uses the commitment we have purchased, in almost all cases he or she is charged additional points as commitment fees which are paid at the time of the funding of the loan.

This is a standard procedure in the savings and loan industry, and is used for all types of residential "for-sale" housing. Again, because of our ability to negotiate more advantageous commitments than a single individual, the amount of points paid by one of the purchasers of our units to an end lender under one of our commitments is generally considerably less than the amount of points that the purchaser would probably pay if he were to go to the lender on an individual "over-the-counter" basis.

### III. SPECULATIVE INVESTMENTS

We generally sell between 10% and 18% of the units in each of our projects to investors who purchase for the purpose of making an investment for time periods in excess of one year. The current guidelines of Federal Home Loan Mortgage Corporation (FHLMC) provide that a developer may sell up to 20% of a project to investors. We normally try never to exceed 15%-18% of the total units being sold to investors, so that we will more than meet the FHLMC guidelines. We feel very strongly that this percentage of investors is good because it provides a number of units which can be rented by tenants not interested in purchasing, but who would like to continue to live in the project. It is our company policy and always has been to make these investor units available on a preferential rental basis to the existing tenants in our projects, particularly the elderly and handicapped. Both the current tax laws and the

requirements of the lending institutions tend to discourage short term speculation. Since mortgage lenders require a minimum of 20% down, and many times 25% down, for investors, their loan-to-value ratios for owner-occupants are more favorable than to investors. I think that the long term investor provides a necessary and valuable service in that he or she provides for a mix of units which are then available for renters, whether they be renters currently living in the project or renters from other projects.

In my view, individuals who invest in the purchase of a condominium unit for an extended time period (one year or more) are no different than any individual who purchases a condominium as an owner-occupant. The ultimate hope is that the unit will increase in value so that the purchaser may realize a long-term gain on his or her investment. The increase in value is not determined by the individual, however, it is determined by the marketplace. The fact that only a limited number of our units are ever sold to investors indicates to me that most investors perceive investments in condominiums as less liquid, more management intensive and potentially more risky than other alternative investments. Since the vast majority of units are sold to owner-occupants it certainly does not appear that investor units contribute to increased housing costs, but rather that the increased housing costs and inflation are a result of the marketplace and the fact

that the demand for housing units outstrips the supply.

Conversions, in and of themselves, do not create rising housing costs, in general, nor affect the cost of housing in a particular neighborhood beyond the value of that housing at the specific time a project is converted. Generally, for a conversion to be acceptable to the marketplace, particularly in the garden type product, the prices at which it is to be sold should be approximately 20% less than the cost of similar "for-sale" housing. After a project is converted it can be assumed that the value of the units will continue to escalate at the same rate as the value of other housing in the same geographical area.

#### IV. COST OF LIVING IN A CONDOMINIUM

A great deal has been written and said about the fact that when a project is converted the cost of living in that project is generally higher after the conversion than before. This may be true. However, two very important facts are usually overlooked when such a comparison is made. They are:

1. In most conversions a substantial amount of refurbishment and rehabilitation work is completed on a project during its conversion, thereby adding significant value to the structures.
2. Although the "cost" of living in a conversion is generally higher than living in the project as a rental, the major portion of that cost, which is the mortgage, has been, until recently, a fixed cost which would never change after the initial purchase. The smaller portions of that cost, i.e., taxes, homeowners dues, of course, will change over time but normally they make up

a much smaller percentage (usually approximately 20%-22%) of the total monthly housing cost. Even though the pre-tax cost of owning may be higher than renting, since approximately 85%-90% of these ownership costs are tax deductible, in many cases the actual after-tax (depending on an individual's tax bracket) cost of owning may be less. A renter, however, will continue to pay increasing amounts of rent over time so that at some point the renter's cost of occupying the same unit will equal and eventually exceed the buyer's costs. The renter, however, will never benefit from the equity appreciation in the rental unit, and eventually will pay higher costs than the buyer ever will.

In our experience over the conversion of 5,000 units, the average pre-tax cost increase of owning a unit in a converted project versus renting in it has been 45%. The average after-tax cost increase, however, has been only 8% (See Table II). Excluding the projects which are currently in the process of development and sale and including only the 2,308 units in the totally completed projects, the prices of which we have no control, the total value of those condominium units has increased by \$95,752,000--more than double the initial value at which they were sold--and is significantly greater than the after-tax initial incremental increase in owning versus renting. This increase has taken place over a total period of approximately five years with the average period of ownership being approximately 2 1/2 years. During this same period of time, the rents for comparable units have increased approximately 53% over what they were at the time of the conversions. A renter, therefore, would now be paying rents which are 53% higher for the same product as when we converted with no residual value

attributable to his or her rent payments. Our average buyer, however, pays approximately 8.36%<sup>1/</sup> more than his or her initial total payment while enjoying an average equity increase in value of 65%.

The impact of these figures is even more significant when you consider the fact that the 14 completed projects were owned by only 14 entities or individuals. If they had continued to own these projects or sold them to other major investors, this \$95,752,000 equity appreciation would have remained in the hands of a very few. What we have been able to accomplish by converting these units is to enable approximately 2,308 individual buyers to share in this substantial increase in wealth over a period of time. Each of these individuals is far better off today than they would have been if they had continued to rent during this same time period. Gentlemen, I submit to you that condominium conversions have provided a tremendous opportunity for the average American to create a hedge against inflation by entering into an ownership position in real estate in this country, many of whom would probably have been excluded from this opportunity were it not for these conversions.

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<sup>1/</sup> This is calculated by taking the average price of all completed units - \$63,512 x 85% (average mortgage amount) - \$53,985 mortgage at 10.75% (average) for 30 years = \$500 total mortgage payment. If you take this mortgage payment and assume an additional initial \$110 per month for homeowners dues and taxes which go up 10% per year, you arrive at a total payment of \$661 after five years for a total increase of 8.36%.

## V. CONCLUSION

I do not mean to suggest or imply that there have not been some people who have been traumatized by the conversion process, or that there have not been some improprieties caused by unscrupulous or unprofessional convertors. Certainly there have been. However these occurrences have been in the minority and should be handled not on the Federal level but on the State and local levels where the regulatory agencies are more attuned to the specific problems in their areas.

The professional companies in this industry are sensitive to these issues and have on numerous occasions taken steps to deal with them. Our company currently provides from \$1,500 to \$2,500 per unit for senior citizens or the handicapped as relocation allowances.

Our most current project in Santa Ana which is in the planning stage has been structured to assist the handicapped and elderly by providing that 30% of the rental investor units will be refurbished under the American Standards Association regulation A117.1-1961. This requires reconstruction of existing units (widening doors, corridors and bath areas, providing grab bars and reconstructing other miscellaneous architectural details), and therefore allows the handicapped and the elderly a greater degree of safety and convenience. We have also provided that these units be on the ground level to provide easier access.

My suggestion to you today is that, rather than considering curtailing or stopping condominium conversions entirely, the Government should consider programs whereby it can help the elderly, the disabled or the lower income population to purchase a condominium. Such a program should not be a cost burden on the Federal Government, but, in fact, could be structured in such a way so that the Government, itself, could share in the increased real estate values of these units over a period of time. I am suggesting that the Government develop a program, whereby, in return for helping to provide either down payment funds or lower interest rate mortgages, it shares in some way the increased appreciation in the value of the condominium at the time the unit is sold. Such a program could conceivably more than pay for itself and perhaps provide additional funds for an agency such as the Social Security Administration.

Homeownership in this country has been one of the strongest foundations of our political stability. It is the only real opportunity for the average person in this country to combat inflation by generally fixing his or her monthly housing costs and providing a nest egg for old age through long term appreciation in value. To deny people in this country that right, or to create insurmountable obstacles so that their only alternative is renting, is to relegate these individuals to an economic wasteland from which they will probably never emerge.



TABLE I

NAME	ADDRESS	# OF UNITS	DATE OF CONVERSION	PURCHASED BY TENANTS	% PURCHASED BY TENANTS	PURCHASED BY OTHERS
HIGHLANDS	BOLTINGWOOD, CA	192	8-73	42	22	150
CHATEAU DELIBANS	ORANGE, CA	61	3-76	20	33	41
VICTORIA GARDENS	FULLERTON, CA	60	6-76	41	68	19
SHADOW LAKE	FULLERTON, CA	44	3-77	11	25	33
PEPPER TREE	NORTHBRIDGE, CA	160	6-77	58	36	102
VILLAGE WALK	PLACENTIA, CA	80	8-77	8	8	72
CASA DE ALVARADO	SAN DIEGO, CA	188	6-77	36	19	152
BELMONT	BELMONT, CA	228	11-77	24	11	204
EASTWOOD	DENVER, CO	120	3-78	30	25	90
SOUTHMOOR	DENVER, CO	66	8-78	40	60	26
TARA HILL	DULVER CITY, CA	430	7-78	99	23	331
CROSS CREEK	PLAYA DEL REY, CA	532	12-78	172	32	360
TIMBERLAKE*	SACRAMENTO, CA	462	8-79	55	12	150
FOUR LAKES*	Lisle, IL	483	10-79	100	21	170
BOOTHLEIGH*	LITTLETON, CO	240	11-79	20	8	100
CREEK VALLEY	DULVER CITY, CA	97	1-80	37	38	60
LAFAYETTE PARK	LOS ANGELES, CA	50	6-80	1	2	49
VILLAGE SQUARE*	SAN DIEGO, CA	286	5-80	0	0	86
CORANBY VILLAGE*	CARSON PARK, CA	204	11-80	2	1	7
BUCKINGHAM OAKS*	AUBURN, CO	309	1-81	9	3	9
SACRAMENTO STREET*	SAN FRANCISCO, CA	13	1-81	1	8	1
VISTA DEL LAGO*	SANTA CLARA, CA	254	1-81	29	11	57
HIRA VISTA**	LA HABRA, CA	140	3-81	88	63	88
TOTALS		4,701		833	182	2,369

\*Project currently under development and sale.

\*\*Project still in Tenant Period.

TABLE 11

NAME	ADDRESS	RENT PRE-CONVERSION	RENT POST-CONVERSION	% INCREASE	RENT POST-CONVERSION	PRE TAX RPT	% INCREASE	RENT POST-CONVERSION	POST TAX RPT ***	% INCREASE	RENT PRE-CONVERSION	CURRENT MARKET	% INCREASE
HIGHLANDS	HOLLYWOOD, CA	\$ 375	\$ 400	7%	\$ 400	\$ 428	7%	\$ 400	\$ 318	(20%)	\$ 375	\$ 650	72%
CHATEAU OULAH	ORANGE, CA	325	325	0%	325	348	5%	325	253	(22%)	225	430	100%
VICTORIA GARDENS	PULBERTON, CA	350	325	30%	325	316	(3%)	325	235	(28%)	250	500	100%
SHADOW LAKE	PULBERTON, CA	250	350	40%	350	368	5%	350	274	(21%)	250	475	90%
POPPYHILL	NORTHridge, CA	325	325	—	325	472	45%	325	252	2%	325	575	77%
VILLAGE WALK	PLACENTIA, CA	370	400	8%	400	424	6%	400	316	(21%)	270	500	85%
CASA DE ALFARADO	SAN DIEGO, CA	250	300	20%	300	293	(2%)	300	210	(30%)	250	450	80%
BELMONT	BELMONT, CA	325	525	62%	525	609	31%	525	513	(3%)	325	550	69%
BAYTHORN	BOYER, CO	470	495	5%	495	492	(1%)	495	367	(26%)	470	575	22%
BOYTHORN	BOYER, CO	465	475	2%	475	563	18%	475	410	(13%)	465	625	34%
TARA HILL	CHRYST CITY, CA	350	450	29%	450	490	9%	450	365	(19%)	250	750	148%
CHINA CREEK	PLAYA DEL REY, CA	350	550	57%	550	576	5%	550	429	(23%)	350	600	71%
YINDELLE	SACRAMENTO, CA	237	331	40%	331	635	92%	331	473	43%	237	331	40%
FOUR LAKES	Lisle, IL	395	395	—	395	527	34%	395	400	1%	395	395	—
BOUTINGDON	LITTLETON, CO	360	435	21%	435	602	30%	435	660	3%	360	425	17%
GREEN VALLEY	CHRYST CITY, CA	350	450	29%	450	607	72%	450	601	47%	250	650	80%
LAFAYETTE PARK	LOS ANGELES, CA	350	750	114%	750	1,121	49%	750	825	10%	350	750	114%
VILLAGE SQUARE	SAN DIEGO, CA	300	425	42%	425	796	67%	425	503	40%	300	425	42%
CONQUEST VILLAGE	CANOGA PARK, CA	425	500	18%	500	934	91%	500	710	42%	425	500	18%
BUCKINGHAM DAKES	AMERICA, CO	600	435	9%	435	640	47%	435	477	10%	600	435	9%
SACRAMENTO STREET	SAN FRANCISCO, CA	410	875	113%	875	1,011	14%	875	1,424	62%	410	875	113%
VISTA DEL LAGO	SANTA CLARA, CA	490	575	17%	575	1,002	39%	575	746	30%	490	575	17%
NIRA VISTA	LA BARRA, CA	320	400	25%	400	710	79%	400	533	33%	320	400	25%
TOTALS		\$ 0,172	\$ 10,491	20%	\$ 10,491	\$ 15,252	45%	\$ 10,491	\$ 11,360	8%	\$ 0,172	\$ 12,671	53%

\*Project currently under development and sale.  
\*\*Project still in Tenant Period.  
\*\*\*This assumes 55% of housing cost is tax deductible and buyer is in a 30% tax bracket.

TABLE III

NAME	ADDRESS	# OF UNITS	DATE OF CONVERSION	ORIGINAL SALE VALUE 000's	CURRENT SALE VALUE 000's	INCREASE IN VALUE 000's	INCREASE IN VALUE %
BEGLANDS	BOLLYWOOD, CA	192	12-75	\$ 10,300	\$ 24,940	\$ 14,640	143%
CHATEAU OLEANS	ORANGE, CA	61	3-76	2,161	6,283	4,122	191%
VICTORIA GARDENS	PUEBLOTON, CA	60	11-76	2,006	6,120	4,114	205%
BLADON LANE	PUEBLOTON, CA	44	3-77	1,953	4,840	2,887	147%
PEPPERIDGE	NORTHridge, CA	160	6-77	8,162	13,600	5,437	71%
VILLAGE VALE	PLACERTIA, CA	80	6-77	4,432	7,520	3,088	70%
CASA DE ALVARADO	SAN DIEGO, CA	186	6-77	7,242	13,160	5,918	82%
BEAUMONT	BEAUMONT, CA	228	11-77	17,777	28,640	11,863	67%
BAYVIEW	DOWNEY, CO	170	3-78	7,325	10,278	2,953	40%
SOUTHWOOD	IRVINE, CO	66	6-78	5,101	7,032	1,931	38%
TARA HILL	CULVER CITY, CA	430	7-78	24,504	38,700	14,196	58%
CHORE CREEK	PLAZA DEL ART, CA	532	12-78	28,655	61,180	32,525	114%
THUNDERBOLT	BALDWINVILLE, CA	462	10-79	24,374	24,374	—	—
POON LACER	LITLES, IL	483	10-79	23,917	23,917	—	—
SOUTHERN	LITTLETON, CO	240	11-79	12,676	12,676	—	—
CHERRY VALLEY	CULVER CITY, CA	97	1-80	9,442	10,670	1,228	13%
LAFAYETTE PARK	LOS ANGELES, CA	50	4-80	5,705	6,275	570	10%
VILLAGE SQUARE	SAN DIEGO, CA	188	5-80	20,363	20,363	—	—
CONQUEST VILLAGE	GARDEN PARK, CA	204	11-80	18,507	18,507	—	—
ROCKWORTH GARDENS	ARMONA, CO	309	1-81	16,180	16,180	—	—
SACRAMENTO STREET	SAN FRANCISCO, CA	13	1-81	2,241	2,241	—	—
VISTA DEL LAGO	SANTA CLARA, CA	254	1-81	24,348	24,348	—	—
MIRA VISTA	LA HABRA, CA	140	3-81	2,825	2,825	—	—
TOTALS		4,701		\$299,774	\$394,526	\$ 94,752	65%

\*Project currently under development and sale.  
\*Project still in Tenant Period.

Mr. ROSENTHAL. Mr. Miller?

**STATEMENT OF HAROLD MILLER, CHAIRMAN OF THE BOARD,  
FIRST CONDOMINIUM DEVELOPMENT CO., CHICAGO, ILL.**

Mr. MILLER. Thank you, Mr. Chairman.

My name is Harold Miller. I am the president and chairman of the board of First Condominium Development Co. of Chicago and a member of the National Multi-Housing Council.

The First Condominium Development Co. was incorporated in the State of Illinois in 1977.

Mr. Chairman, I request that my separate testimony on behalf of First Condominium Development Co. be included in the record.

Mr. ROSENTHAL. Without objection, your entire testimony shall be included in the record.

Mr. MILLER. Let's talk about what I think is the essence of the problem as I perceive it, not only from my own observations but from hearing much of the testimony today; not all of it but much of it.

I think one of the major problems that we are discussing is displacement of the elderly, not young people. Young people have mobility. They are young, and their bodies are healthy. If they are not living near their favorite watering hole, they can travel a little further. It is the elderly that we have to look after.

We are also talking about the problem of supply and demand. I would like to address that in one moment, after I have gone through my remarks on the elderly.

I want to point out to this committee that there are many developers who are sensitive to this particular problem. I know that I am; I know that Robert Sheridan is; and I know that Mr. Stack is. There are many, many others.

The National Multi-Housing Council has a subcommittee which is currently looking into this particular problem. I am a member of that subcommittee.

One of the things we are studying is mandatory lease terms. Today in Annapolis, Md., this particular topic is being discussed. I spoke last evening to an attorney that I know who is involved in it.

There in the State of Maryland, they are thinking of mandatory 3-year leases. Possibly in communities where they have a shortage of rental housing, based upon a certain percentage, the community can extend these leases.

We are studying it.

Next: Life estates. We are studying that.

Next: Financial incentives.

Example: Montgomery County, which is, of course, your neighbor, does have financial incentives. There they will provide up to \$3,000 for an elderly person to be applied toward the downpayment. They have other allowances too. That we are also studying.

So the displacement of the elderly and the impact upon them is our concern, as it is your concern. We are making a study, and we hope to have a reply within a few months which we will act upon.

There are some problems which our attorneys have called to our attention which concern antitrust matters. But, again, we are proceeding with our study. We will then submit it to our attorneys for

their evaluation as to antitrust problems. I hope that there are none.

Mr. ROSENTHAL. How have you dealt with displacement? How many buildings have you done in Chicago?

Mr. MILLER. I have done a number. Let's talk about the most recent one. Let's talk about the Willoughby, which I am doing now.

Mr. ROSENTHAL. In Bethesda?

Mr. MILLER. No, in Chevy Chase.

Mr. ROSENTHAL. How do you deal with this problem?

Mr. MILLER. OK. I'll tell you how we are dealing with the one in Chevy Chase.

They have an ordinance which requires a 2-year extension on the lease. We have given an additional year. I will come back to that, because the question arises of what do we do at the end of 3 years.

I will respond to that in a moment.

Also, where the Montgomery Council is giving up to \$3,000 toward downpayments, we will match the exact amount of money.

In most cases, for the elderly people who, of course, don't need large apartments and can live in smaller ones, the \$6,000 is enough for their downpayment.

Also, if they want to move, I think the county allows \$750, we feel that is inadequate, and we are giving them \$1,500. That's how we are addressing the problem there.

We will assist all the elderly in the building.

As in Sandburg Village in Chicago, we take care of every elderly person and all infirm people.

By the way, when I speak of elderly, I am also including infirm, so I don't have to include that additional few words each time.

We gave everybody a 2-year lease with no increases.

In many cases, the third year has now started and we are giving them an additional year without an increase.

What happens at the end of the third year there? I can tell you as a matter of policy, we will continue those leases. We have done it in some of our buildings for a number of years. I know of one building where a tenant has been there 5 or 6 years. She is a widow and lives alone. I don't think we have increased that rent for 5 or 6 years.

We are very sensitive to this, as are these two gentlemen. We are working toward that particular goal.

I would like to address myself for one moment to speculation. The term needs some definition.

If we discuss people who buy housing for the purpose of resale at a profit, everybody speculates. Nobody buys something to lose money.

However, those people who buy for investment also perform a function. I do not call them speculators nor investors but nonresident owners. That also needs some sort of definition.

We find nonresident owners who buy apartments for their children to live in; nonresident owners who buy apartments for their parents to live in; and so on.

Our company, as a matter of policy, has never sold more than two apartments to any one person. There are a few exceptions.

For instance, the First National Bank of Chicago has been there for many years and has leased nine apartments for corporate pur-

poses. The Bank of India has leased a number of apartments for many years before we took over for corporate purposes. The Polish Consulate has a number of apartments for corporate purposes.

We try to avoid selling large numbers, but it can be done for special reasons.

I would now like to address myself to one of the really critical problems. That is the lack of rental housing.

I practiced law for 25 years as a specialist in real estate law. I represented banks, savings and loans, builders, the whole gamut. The only thing I didn't do was zoning.

Because of economics, no one can operate profitably a rental building today. I am not talking about the little low-rise building, such as Mr. Stack addressed himself to. I am talking primarily about high-rise buildings.

Take cost of fuel: I used to pay 19 cents a gallon and now it is \$1.25.

No one knows what you are going to have to pay for fuel tomorrow; if OPEC tomorrow decides to raise the price from \$36 a barrel to \$100 a barrel, we will pay \$100 a barrel. We are in a bind; we can't help it.

How do you structure that in to your rents?

If you project that fuel is going to go up 15 or 20 percent or higher, you may be right. But what if it goes up 50 percent, as we have seen. What do you do? Remember you give 1-year leases. It is not like a retail men's store where if the price goes up, he can remark all of his merchandise the same day. But not on a 1-year lease. You have to wait 12 months to start recovering it. How much can you increase rents, 20, 30 or 40 percent; obviously not.

You have to have a sensitivity to the people that live there.

What we have to do is find methods of increasing the rental housing stock of this country. I think there are ways of doing it, possibly without the involvement of the U.S. Government and subsidies.

How? First of all, the interest rates we have seen are abnormal interest rates. Something has to be done to curtail this inflation. I hope that the new administration is capable of doing it. I certainly pray so for all of us.

Second, and I believe, Congressman Levitas, you asked this question earlier, about long-term capital gains and depreciation.

There was a time when wealthy people built rental housing because of tax shelters. Recent changes to the Internal Revenue Code took a good part of that away from them.

So why should they build? Especially in such times as this when you cannot structure a rental building to get even a return of your investment. You can't even structure so there is no negative return involved. I know, I just made a study of that in the past 2 weeks. There is no way of doing it.

I structured in a 12-percent mortgage for 30 years on some vacant land that I have in Chicago on which I would like to build rental housing and convert it years from now. It just doesn't work; it just doesn't come out.

Something has to be done. I would like to see Congress—and, of course, it is the House Ways and Means Committee that is addressing itself to it, but all of you are going to have to vote on it—I

would like to see the incentives in the following ways: First, accelerated depreciation—18 years is fine.

Second, I don't want to see anything that will disturb the long-term capital gain. Congressman Rosenthal, you are from New York. I am sure you know the Milstein family and Standard Brands. They do build hundreds of rental housing units per year.

I was in the office of Howard Milstein last year, and he had just addressed a letter to the chairman of a Senate committee which was holding hearings in New York on proposed additional restrictions on conversions.

In effect, what Mr. Milstein said was we build  $x$  numbers of units per year for rental purposes. We lose money on every one we build. We recover our money, our losses, and make a profit when we sell to a converter.

If you enact the restriction you are considering, which will prevent conversions, we will no longer build rental housing in New York.

Who benefits from that?

Again, with rental housing, we need the incentives of depreciation. We need the incentives so that the long-term capital gain is not taken away. Also, we need to be assured that restrictions will not be imposed upon us by the Federal Government or by States that will prevent those conversions.

[Mr. Miller's response to subcommittee questions follows:]

RECEIVED & RECORDED, U.S. DEPARTMENT OF COMMERCE  
 OFFICE OF THE SECRETARY  
 WASHINGTON, D.C. 20540  
 MARCH 17, 1981

NINETY-SEVENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM 2154  
 WASHINGTON, D.C. 20511

U.S. DEPARTMENT OF COMMERCE  
 OFFICE OF THE SECRETARY  
 WASHINGTON, D.C. 20540  
 MARCH 17, 1981

March 17, 1981

Identical letter sent to the attached :

On March 30, 31, and April 1, 1981, the Commerce, Consumer, and Monetary Affairs Subcommittee will begin hearings into the public policy consequences of the national condominium and cooperative conversion trend, including an examination of the manner in which Federal agency policies, practices, and procedures impact this trend. In order to test the effectiveness, efficiency, and effects of Federal programs and practices, the subcommittee needs information from developers engaged in conversions.

Your testimony is requested on Wednesday, April 1, 1981, at 9:30 a.m. in Room 2154 of the Rayburn House Office Building. It should be responsive to the following:

1. Describe the activities and operations of your company and affiliated companies in converting rental housing units to cooperative or condominium ownership.
  - a. Provide a list of all conversions with the location, the number of units in each building, and the dates of conversion. Discuss future conversion plans.
  - b. Provide the number of units purchased by existing tenants. If this data is not available, provide an approximate number or percentage.
  - c. Provide the number of units purchased by others.
  - d. State whether any building purchased contained units which were subject to rent control or rent stabilization at the time of purchase and identify such buildings.
  - e. State, if known, whether and the extent to which any building purchased was unprofitable as a rental building.
  - f. Describe the results and furnish the subcommittee with copies of any studies performed by or for your company, which deal with the displacement of tenants in buildings.



2. One of the subcommittee's primary interests is in determining the extent to which the conversion process impacts on rising housing costs and on inflation; and the role of federally regulated financial institutions in this process. Accordingly, please describe the nature of the financing process utilized by your company for the purchase, conversion, and end-sales of properties.
  - a. Describe your company's relationships with banks and thrift institutions in financing conversions. Your response should include answers to the following: Are limitations imposed by financial institutions on the sales of units to investor/speculators? Are there meaningful differences in dealings with federally-supervised as opposed to state-supervised financial institutions?
  - b. State the number of and specify the instances in which your company paid a rate of interest in excess of the then prime rate for the purchase money loan to buy and convert the buildings described in 1.a. above.
  - c. Specify the number of instances in which your company paid a fee to a bank or thrift institution to obtain a commitment for end-loan financing for the purchase of units in buildings described in 1.a. above; and, set forth the total aggregate amount paid for all such end-loan commitments.
  - d. Specify the instances in which your company's commitments for end-loan financing provided, in addition, for "points" to be paid by the purchasers of units.
3.
  - a. In your view, what is the impact of conversions generally on rising housing costs? For example, can a conversion affect the costs of housing in the surrounding neighborhood? If so, how?
  - b. To what extent does a conversion affect the cost of residing in a unit in a converted building? In this connection, describe the typical percentage increase in total monthly payments as a result of change in ownership from rental to condo or coop ownership in buildings recently converted by your company.
  - c. What is the approximate percentage increase in rental costs to persons occupying units purchased by non-occupant investors, over the pre-conversion rental price, in buildings converted by your company?
4. What is your company's policy with respect to selling units to speculators who do not reside in the units but purchase them for investment purposes?
  - a. What percentage of sales in your conversions are made to investors?
  - b. Does your sales policy comport with the requirements of the Federal Home Loan Bank Board, mortgage insurance companies, and the secondary mortgage market institutions, in making sales to investor-speculators?
  - c. Describe your activities and, to the extent you know, the activities of members of your family, friends, and your employees in buying units in AIC converted buildings.

5.
  - a. In your view, does speculation in units in buildings converted by your company contribute to rising housing costs and housing inflation?
  - b. Should anything be done to reduce such speculation? For example, should mortgage loans to investors be prohibited? Should tax deductions to investors be denied or reduced? Should the mortgage loan-to-value ratio for owner-occupied and investor purchased units, be more favorable to owner-occupants?
  - c.
    - i. In your experience in the real estate industry generally, do you agree with the widely-held view that in condo and coop buildings owner-occupiers are preferable to renter-occupiers in terms of risk of default and in attitudes and behavior conducive to improving property values?
    - ii. In your dealings with mortgage insurance and lending institutions, what have you found their attitudes to be on the preferability of owner-occupiers to renter-occupiers in converted condo and coop buildings?
6.
  - a. Describe the typical management arrangement entered into by your company with the condo or coop association for the management of the building. And set forth, as to each building described in 1.a. above, the financial arrangements and terms of any management contracts.
  - b. List and describe any other leases (including recreation leases) between your company and the condo or coop association for the buildings described in 1.a. above.
7. Describe other lawsuits brought against your company or any affiliate in connection with any conversion.
8. What are your company's policies with respect to displacement of elderly or handicapped tenants?
  - a. How does this policy compare with the policies utilized by others in the conversion industry?
  - b. In your view, what is the appropriate and necessary level of local, state and Federal involvement to protect the elderly from hardship due to displacement resulting from conversions?

Your written testimony may be as comprehensive as you wish, and of course it will be made part of the permanent record of the hearing. Please be prepared, however, to summarize the statement and to present a relatively short oral statement.

Please supply 75 copies of your written testimony to the subcommittee no later than March 26, 1981. If you have any questions, please contact the subcommittee staff at 202/225-4407.

Sincerely,

Benjamin S. Rosenthal  
Chairman

BSR:jb

Mr. Harold Louis Miller  
Chairman of the Board  
First Condominium Development Company  
1360 N. Sandburg Terrace  
Chicago, Illinois 60610

Dear Mr. Miller:

Mr. Robert Sheridan, Managing Partner  
Robert Sheridan & Partners  
5415 North Sheridan Road  
Chicago, Illinois 60640

Dear Mr. Sheridan:

Mr. Geoffrey L. Stack  
Regis Homes, Inc.  
5120 Campus Drive  
Newport Beach, California 92660

Dear Mr. Stack:

1197

April 1, 1981

WRITTEN RESPONSE OF HAROLD LOUIS MILLER  
CHAIRMAN OF THE BOARD  
FIRST CONDOMINIUM DEVELOPMENT CO.

TO QUESTIONS POSED  
BY THE

COMMERCE, CONSUMER, AND MONETARY  
AFFAIRS SUBCOMMITTEE OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
U. S. CONGRESS

Response to Question #1:

First Condominium Development Company was incorporated in February, 1977 in the State of Illinois. Its principal office is located at 1360 N. Sandburg Terrace, Chicago, Illinois. There are a total of approximately 35 employees and officers of this company at all locations.

The Company is now doing one conversion in Miami, Florida, and one conversion in Chevy Chase, Maryland. We are presently completing the conversion of the 2640-unit Carl Sandburg Village in Chicago, Illinois.

We are a small company, and plan to remain a small company. We are operating in three cities and limit our activities in each city. Except for Carl Sandburg Village, our volume of conversions is relatively modest. The limited number of conversions that we do gives us the opportunity to give individual attention to each project.

The following is a list of conversions by this company which includes answers to parts (a), (b), and (c) of question 1.:

Ridge Terrace I, 835 Ridge Avenue, Evanston, Illinois. This project commenced in June, 1977. It consisted of 33 units, one of which was given to the association for occupancy by the superintendent. Of the remaining 32 units, approximately five (15%) were purchased by existing tenants. The balance of the units, with the exception of approximately one or two, were purchased by new owner-occupants. The reason for the low tenant retention was the fact that approximately 70% of the original tenants were Japanese Nationals on temporary assignment in the United States and the condition of their employment required that they return to Japan at the completion of the term.

Ridge Terrace II, 929 Washington Street, Evanston, Illinois. This project was undertaken in 1978. It consisted of 20 units. One unit was purchased by a tenant. The balance of the units were purchased by new owner-occupants. The building was in dilapidated condition and had to be totally refurbished. Several hundred thousand dollars were spent upgrading the building. After completion, adjacent property owners called it "The Miracle on Washington Street."

5401 Hyde Park Boulevard, Chicago, Illinois. The project commenced in 1977 and was completed in 1978. It consisted of 78 units, one of which was given to the association for occupancy by the superintendent. Between 35% and 40% of the units were sold to existing residents. The balance of the units, except for possibly two, were sold to new owner-occupants.

University Park Condominium, 1400-1450 E. 55th Place, 1401-1541 E. 55th Street, Chicago, Illinois. This project was undertaken during the later part of 1978 and was completed in 1979. It consisted of 540 units, two of which were given to the association for an office and an apartment for the superintendent. It is estimated that 50% of the existing residents purchased, and that between 30% and 35% of the units were sold to new owner-occupants. Approximately 15% were sold to non-resident purchasers.

Sandburg Village, 1355, 1360, 1455 N. Sandburg Terrace, 88 W. Schiller, 70 W. Burton, 1560 N. Sandburg Terrace, 1555 N. Sandburg Terrace (plus townhouses), Chicago, Illinois. This project consisted of approximately 2640 units, four of which were given to the association for occupancy by superintendents. The project was commenced in the first quarter of 1979 and is presently being completed.

This conversion was done in three phases. Phase I consisted of four high-rise buildings and a few townhouses. All elderly and infirm were given an opportunity to purchase their units or to remain as tenants with a two-year lease and no rent increase. Approximately 10% of the units were rented to the elderly and infirm. This represents virtually 100% of the elderly and infirm who formerly rented apartments. Approximately 70% of the tenants purchased their units. It is estimated that another 15% were purchased by new owner-occupants. The balance were purchased by non-resident purchasers.

Phase II consisted of three high-rise buildings and a few townhouses. The elderly and infirm were again given the opportunity to either purchase or remain as tenants with a two-year lease without rent increases. Approximately 5% of the units were rented to the elderly and infirm. There were approximately 823 units

in this phase. This represents virtually 100% of the elderly and infirm who formerly rented apartments.

Phase III consisted of one high-rise building, one medium-rise building and a few townhouses. The elderly and infirm were again given the opportunity to either purchase or remain as tenants with a two-year lease without rent increases. Approximately 5% of the units were rented to the elderly and infirm. This represents virtually 100% of the elderly and infirm who formerly rented apartments. A total of 624 units were contained in this phase. As of this date, approximately 40 units remain unsold. Of the 548 which were sold, approximately 62% of the units were purchased by tenants, approximately 20% were purchased by new owner-occupants and approximately 10% were purchased by non-resident owners.

PLEASE NOTE: Historically in Sandburg Village there was a turnover of between 15% to 20% of the tenants per year. When this is taken into account, the percentage of tenants who were "displaced" is minor.

Brickell Biscayne, 150 Southeast 25th Road, Miami, Florida.  
This project commenced in January of 1980 and consisted of 167 units, of which 85 (51%) were purchased by residents, 20 (12%) were purchased by new owner-occupants, and 19 (11%) were purchased by non-resident owners. Of the 19 purchased by non-resident owners, some of them were leased to tenants and some will be used as secondary homes. There are 42 unsold units at this time.

The Willoughby, 5415 Willard Avenue, Chevy Chase, Maryland.  
There are approximately 815 units in this project. Sales to the existing tenants will commence shortly.

Of the buildings listed above, the Willoughby is our only project previously under rent stabilization. None of our other projects were subject to rent control or rent stabilization.

To the best of our knowledge, the only building that operated at a profit as a rental building was 5401 South Hyde Park Boulevard. If that building is analyzed, however, using, as a basis, the fair market value, it would not have been profitable. The remaining buildings listed above operated unprofitably as rental buildings. The above information was relayed to us by prior managers or owners.

This company has never made any formal studies which deal with the displacement of tenants.

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- 4 -

PLEASE NOTE: It has always been the policy of this company to offer the elderly and infirm the opportunity to stay in their apartments under very favorable terms. In Sandburg Village, all of the elderly and infirm were given two year leases without any rental increase. The leases are being renewed for the third year at an increase of only 6%. In the Willoughby, Chevy Chase, Maryland, Montgomery County gives protection to the elderly for two years. We have advised the elderly and infirm this program will be continued into the third year.

Response to Question #2:

In response to question 2, please be advised that in all of the projects except Sandburg Village (Phase I and Phase II) the purchase contract provided for this company to undertake a pre-sell program before the actual closing to the seller. Most of the funds required were from internal sources and small bank borrowings. Phase I and Phase II of Sandburg Village required major bank borrowings from the Continental Illinois National Bank. On Phase III the contract with the seller contained a presell clause.

In our experience financial institutions normally require a larger down payment from purchasers who are not intending to occupy their units. There was no meaningful difference between the Federally-supervised or State-supervised institutions.

In all situations, when this company borrows funds from banks, we normally pay between 1% to 2% over the existing prime rate.

Commitment fees were paid for end loans in the following instances: Sandburg Village, Brickell Biscayne, and University Park Condominium. In all instances the lender required that points be paid by the purchaser. In Sandburg Village (Phase I and Phase II), the seller absorbed a portion of the points normally charged to the buyer. In Phase III the seller absorbed all of the points normally charged to the buyer.

Our experience regarding points and fees is no different from any other builder or seller who seeks end loan commitments, including builders or sellers of single-family homes.

Response to Question #3:

It is our view that the conversion of an existing rental building to a condominium does not have a major impact on housing

costs, but rather condominium costs reflect overall housing demand and operating costs.

Renters who purchase condominiums ultimately benefit. Rent reflects (1) cost of operating the building, (2) real estate taxes, (3) debt service. Condominium costs reflect (1) cost of operating the building, (2) real estate taxes, and (3) mortgage. Operating costs are a wash. Real estate taxes may increase, but for the condo owner are deductible. Mortgage payments may be initially higher than rent, but they are stable over time. Interest on the mortgage is deductible by the condominium owner. After deducting the interest on their mortgage and the real estate taxes from income for Federal tax purposes, the condominium owner's out-of-pocket costs are only slightly higher than the monthly rents on comparable apartments in the community and the owner is building equity. In Sandburg Village this was especially true in the studio and one-bedroom units.

PLEASE NOTE: Increased revenue is received by the county when a building has been converted to a condominium. The county reassesses the condominium units in the building on their increased value and the total assessment is a far greater value than the assessed value of the building as a rental. (See Shlaes & Co. study, page 72, along with the attached excerpts.) Mr. Chairman, I'd like to submit a copy of the Shlaes report, for the record. No additional municipal services are provided to converted buildings, except in some jurisdictions where requests have been made to the city to render the same garbage collection services as they do to single family residences.

If a non-occupant purchaser purchases the apartment subject to the existing lease, the rent remains the same for the balance of the lease term. In Phases I and II of Sandburg Village with the typical one-bedroom apartment, the average rate under FHA controls was \$390 to \$420. These apartments are now being rented to tenants from between \$450 to \$500. The increase was over a period of two years, approximately 10 percent per year. Again, please take into consideration the fact that the tenant is living in a building that has been improved, and that other benefits, such as carpeting, have been provided by the unit owner. Further, the original rents were approximately 20% under the market.

Response to Question #4:

The term "speculator" needs definition. Does the term "speculator" mean people who invest in real estate hoping to obtain a profit on resale? If so, then every purchaser is a speculator because I don't believe anyone buys real estate who does not anticipate making a profit on resale. The real question,



I believe, concerns people who purchase apartments and do not intend to reside in them. We use the term "non-resident owner" which we define as being a person who buys a condominium unit and is not presently intending to reside in the unit. But even this definition must be further clarified since we have seen a number of non-resident owners who have purchased units for members of their families to be delivered to them at some future date. Example: Non-resident owners have purchased apartments for children returning to live in Chicago or to attend school in Chicago. The purchase is made at the present time because of the values. If the question is meant to ask what percentage of purchasers never intend to reside in the property, we don't really know. Additionally, we have seen children purchase apartments that their elderly parents live in; how do you classify them? (See Shlaes Report, page 77.)

This company has a policy of rarely selling more than two apartments at one time to any individual. Out of the 2600 units that have been sold in Sandburg Village, only 99 have been multiple sales: 69 people have purchased two units and the balance include 9 units purchased by the First National Bank of Chicago for corporate purposes. The Polish Consulate purchased several units for members of their counsel, and the State Bank of India, purchased several units for their corporate purposes. Non-resident owners also provide a most important function since, in most cases, the tenant remained in the apartment under a lease with the new owner.

PLEASE NOTE: The policy of this company has always been to bring in a strong tenant program. Our best efforts have gone into doing whatever we can to insure a high percentage of tenant retention.

It has always been our sales policy to meet the requirements of all regulations in all sales.

It must be assumed that "AIC converted buildings" relates to American Invsco. Based upon this assumption, no members of my family or any of my friends with whom I have discussed this matter or any of my employees have purchased units in AIC converted buildings--the only exceptions being two of our employees in Washington, D. C. who were residents of the Promenade and who purchased at the time of the conversion. At that time, they were both employees of American Invsco.

#### Response to Question #5:

Our sales to non-resident owners are very limited. It is our opinion that the increases in selling prices of all residential

real estate are due to the inflation in general. In a high-rise building many units are identical and when it is time to sell the units, the purchaser does not care whether the unit was owner-occupied. It is the condition of the unit and the real estate market that dictate the price. (See Shlaes Report, page 37.)

Some people purchase real estate as well as gold, silver and diamonds and other items as a hedge against inflation. Obviously, all these purchases are made with the hope that they can be resold at a profit. Real estate is one of the very few commodities which cannot be sold immediately via telephone. This substantially reduces speculation. The true speculator deals in commodities like stocks, bonds, and treasury futures, where billions are bought and sold daily, and where the ability to buy and sell is immediate.

Further, many lenders distinguish between owner-occupied and non owner-occupied units, their terms being more favorable for owner-occupied units.

It has been our observation that where non-resident owners carefully select their tenants, there is no difference in attitude and behavior between the tenant and the resident owner. Further, in many cases the original tenant at the time of conversion has remained as the tenant for the new non-resident owner. I don't believe there is an increased risk of default since the lender's credit requirements are strict. The lenders may prefer owner-occupied units, since they do differentiate in their credit requirements. However, many lenders, while differentiating, have stated that the non-owner occupied units are repaid sooner, enabling the lender to loan the funds at an increased profit.

Response to Question #6:

Our company is not engaged in the management business and does not have any management agreement with any condominium or cooperative associations. We specialize in condominium and cooperative conversions and do not undertake management.

The policy of this company has always been never to have any leases for any purposes whatsoever on any building which we convert, except for the uses of our own offices during the conversion period.

Response to Question #7:

We have listed below all of our projects and whether or not there has been any litigation, as follows:

Ridge Terrace: No litigation  
 Ridge Terrace II: No litigation  
 5401 S. Hyde Park: One claim against First Condominium Development Co. for replacement of an air-conditioner. The case was dismissed.  
 University Park: No litigation  
 Sandburg Village: Regan Burke vs. Eagle II, et al., 79 L 5861. Regan Burke was a tenant who filed suit alleging that the Sandburg Village conversion was a violation of a city of Chicago urban renewal project. The lower court dismissed the complaint. Ms. Burke subsequently purchased the condominium unit in which she resided.  
 Judith Jones v. Eagle II, et al., 80 CH 3084. Ms. Jones' complaint alleged that the proposed prices contained in the property report could not be increased. The lower court ruled against Ms. Jones. The matter is now on appeal.

Brickell Biscayne: No Litigation.

City of Chicago v. First Condominium Development Company.  
 When the first City of Chicago condominium ordinance was enacted, several of the sections required clarification. There was a lawsuit filed as to alleged violations of the new ordinance. The suit was dismissed. No appeal was taken.

Response to Question #8:

We are not fully aware of the policies utilized by others in the conversion industry. We undertook a policy of renewing leases of senior and infirm citizens whenever we were requested. The policy in Sandburg Village, which contained a number of senior citizens, has already been stated above. We gave them all two year leases without any increases in rent and for the third year the increases will be a modest 5%. In the Willoughby, in Chevy Chase, Maryland, we have gone beyond the requirement of the statute and have given the elderly and infirm tenants an additional year. In addition, in the Willoughby, we have provided several options not required by the State, such as providing a portion of the down payment so they are able to make their purchases, or alternately, a substantial relocation allowance.

It is our opinion that it is inappropriate for Federal involvement in an area which should be controlled by the States. Each community is different, and no broad Federal policy could effectively remedy local problems.

Mr. Chairman, we have attempted to respond to your questionnaire to the best of our ability given the time constraints. Unfortunately, some of the questions needed clarification. Some of these responses are based upon information given to us by others, while other portions are our best estimates.

Mr. Chairman, I'd like to submit, for the record, a copy of the report by Shlaes & Co. titled "Condominium Conversion in Chicago: Facts and Issues," which I cited in my earlier testimony.

Respectfully submitted,

FIRST CONDOMINIUM DEVELOPMENT CO.

Harold Louis Miller  
Chairman

Mr. ROSENTHAL. Mr. Sheridan, let me ask a question and let me be very frank and honest with you.

I have walked through the lobby of the Philadelphian many, many times. Maybe seven or eight times I have sat and had lunch in a little restaurant joint down there.

Mr. SHERIDAN. Please, it's one of my tenants.

Mr. ROSENTHAL. Most of those people feel very harassed. They are frightened and scared; they are concerned and worried; they are unhappy and feel threatened.

Mr. SHERIDAN. Mr. Rosenthal, when was the last time you were at the Philadelphian?

Mr. ROSENTHAL. Over a period of 6 months, I have been there seven or eight times. I have been through that lobby eight times. Sometimes I can't get in the front door, so I have to walk through the grocery store to get into the lobby. I have sat down at various tables and had lunch with various people.

Mr. SHERIDAN. That's an interesting comment, because about 76 percent of the residents bought their units at the Philadelphian.

I think that property did well. It is large. For the benefit of the members of the subcommittee, there are a million square feet in that property.

By any standards, it was an overwhelming success.

I will stake my professional reputation on what I said earlier, and that is at the outset you will have people who will buy not really because they want to but there is a perception that they have to.

Survey them 2 years later and they then pat themselves on the back on how astute they were.

I would say, and I am in Philadelphia weekly, that I do not have that sense at all in that property.

Mr. ROSENTHAL. If I went there tomorrow afternoon, do you think—

Mr. SHERIDAN. I will arrange for a guided tour.

Mr. ROSENTHAL. No, no, not under your auspices. If I went there on my own, do you think the atmosphere would be different?

Mr. SHERIDAN. First of all, I don't think that was the reason I asked the question as to when you were there. I just don't get that sense.

Part of what I think I ought to be able to do well is understand a market and its climate. I just don't sense that at all. I don't think it is accurate; I know it's not accurate.

Mr. ROSENTHAL. I am only reporting to you what I perceived as a total consensus, fright and fear.

Mr. SHERIDAN. With all due respect, I really don't think that is accurate. I think if you are willing to talk—as a matter of fact, the president of the tenants' association is testifying tomorrow in behalf of the condominium concept at some statewide hearings that are being held in Philadelphia.

Mr. ROSENTHAL. I went through a lot of buildings. Was the Touraine yours?

Mr. SHERIDAN. Yes.

Mr. ROSENTHAL. We had some negative testimony about that here on Monday.

Mr. SHERIDAN. So I heard, and I'm interested in seeing that.

Mr. ROSENTHAL. When I went to Beaver Hills, the people were also terrified. When I went to the president, Invsco Building, they were not frightened. All those people felt much more secure about events. There was a different character of person in that building.

Mr. SHERIDAN. Depending on where you would like to spend the time, would you like to talk about the Touraine?

Mr. ROSENTHAL. If you would like to briefly.

Mr. SHERIDAN. It is interesting. This is not a conversion.

At some point along the line, I would expect ultimately that we will sell it as condominium. But what we are doing in this case is part of what I see as part of the next level of what will happen in the condominium development process.

We are taking an architecturally significant building in a very soft part of the city. There have been some questions of whether they are all luxury buildings.

This is one of the first for us that is not a luxury building that we are convinced we can make a significant impact on on the south part of center city.

Some of the local real estate professionals said that I was crazy to buy at 16th and Spruce. Time will tell as to whether that is true or not.

We bought a building for \$3.5 million, and we will spend over \$5 million in terms of its upgrade.

This is a real case, I would submit, of displacement.

A lot of what is called displacement is, in fact, not. This one is because we are changing the nature of the building.

If you were involved with city government, I think you would be more than delighted that, in fact, the developer was willing to take this kind of exposure. Three doors away they have a building that is being auctioned in chapter 11 in Federal court on April 15, a building that has been delinquent on its real estate taxes that is a health and safety hazard. That is the block in which we are making a big commitment.

Mr. ROSENTHAL. You are a block and a half from Bookbinder's Seafood Restaurant though.

Mr. SHERIDAN. Not quite. But we are also only a couple of blocks from Rittenhouse Square.

We believe that the location value here has great potential, and that within a few years that will be demonstrated.

I am accustomed to being called crazy in Philadelphia. They said I was crazy when I bought the Philadelphian.

Something that is significant: We are not economists; we are business people. But I think we understand the business extremely well.

I would like to talk about the question of increased shelter costs, whether it is inflationary or whether it is nearly reflecting market forces.

I think what we have here is a matter of "shoot the messenger who brings the bad news."

Here are the relevant facts in terms of increased shelter costs in terms of the condominium conversion process.

First, rents throughout the country are basically low. In Philadelphia, specifically, rents are 30 to 40 cents a square foot per month.

Second, the other side of the same coin is that when you find rents low, you will find housing not maintained.

In Philadelphia, as a matter of fact, there are probably the worst conditions of apartment maintenance that I have seen. It runs only neck and neck—and I say this with all due respect to the chairman and the State of my birth—with New York.

Mr. ROSENTHAL. It's worse.

Mr. SHERIDAN. Philadelphia has its problems, as do many of the major metropolitan areas.

Mr. ROSENTHAL. You heard what President Reagan said on moving into the operating room. He said: "I'd rather be in Philadelphia."

Mr. SHERIDAN. But that was just a takeoff on W. C. Fields, I think.

The third issue, when you look at the whole process, is that the returns to the owners are essentially 2 to 3 percent on the real value of their property.

If you net out the underlying debt, you may get to a 3 to 4 percent return.

Obviously, I would have to ask the members of the subcommittee the rhetorical question: "If you had an asset worth \$35 million, would you be satisfied making a million dollars a year." A million dollars a year sounds like a lot of money, but not when you have \$35 million riding and when you could take that money out and put it into a money market fund and not have to worry about leaky plumbing.

Cheap rents have been available, because landlords either consciously or unconsciously have been willing to accept the low market yield, and also because historically what has happened in terms of lendable funds. The days of fixed-rate mortgages are gone. But that has been why we have had cheaper rents.

One day the owner says: This is crazy. I don't need this aggravation. I am going to sell.

He sells and we sell, and the cost of shelter has gone up.

But it goes only to where the market will sustain it.



Within a year if the development is done well, you will see resale prices move up 30 to 40 percent.

The market has said that indeed this housing is worth more than we sold it for. If it fell, it would say it wasn't worth what we sold it for and more than likely would not have been able to sell it.

This is where the messenger who delivers the bad news gets shot. That's the condominium developer. The conventional wisdom says that condominium conversions have caused this increase in housing costs.

That's not so. What has happened is that condominium conversions are responsible for permitting housing to find its level, in terms of a free market. That is what has happened.

Even though I have acknowledged that shelter costs have gone up, Jeff Stack has talked about it from an historic standpoint what his experience has been, I think over a period of time that real cost becomes, in fact, a real gain.

When you have to pay the check each month, it is hard to console yourself with the fact that you may have a gain 3 or 4 years down the road.

In this process, what we are doing is one of the few dynamics that I see happening in terms of rental housing.

Harold Miller started to talk about it. It is central to what is concerning the subcommittee.

What the industry recognizes is why is there a shortage. There are three simple reasons.

There is a shortage of rental housing: One cause the numbers don't work; two, because under the last change in the tax code you took away a substantial part of the tax incentive so that if a developer was crazy enough to overcome the first two obstacles, now he is threatened with the third, which is the uncertainty. If he can get over the first two problems, he says at least there is something at the end of the rainbow. I can sell the building and get out very satisfactorily that way. But if he is faced with an economic climate that has the potential of condominium moratoriums, he says: I don't need this kind of craziness. And he doesn't build.

You must recognize that when you start talking about condominium moratoriums, the other side of the coin is that you are adversely affecting the interest of anybody who is prepared to spec build rental housing.

I talked earlier about a proposed code.

Mr. ROSENTHAL. I wonder if we could conclude the presentation and go to questions. Mr. Atkinson?

Mr. ATKINSON. Thank you, Mr. Chairman.

I think earlier Mr. Stack stated that upon the completion of a condominium conversion that the rents in the area went up 53 percent.

Mr. STACK. From our numbers, basically, what we have found has happened in these areas.

What I said was, from the time that we converted projects, we went back and looked at today where those rents are.

In the areas where we have completed projects and really have been long gone out of there, the rents on the average have increased 53 percent. This is basically a two-State area, northern and southern California and Colorado. Those are the areas.

Mr. ATKINSON. Prior to that the rent increase in the area was small or nonexistent?

Mr. STACK. The rents have consistently gone up. I did not mean to imply that they have gone up any faster. The rents had consistently increased.

What we did is take a survey of overall market rents from the time we had converted to today. I wouldn't say they had gone up any more quickly. I think they have gone up, as they have gone up all over.

That was my point. We may talk initially about what for many is a painful increase in costs. However, in the long run, and the long run may be depending on the marketplace; 1, 2, 3, or 5 years, the person who buys has a more stabilized monthly cost of housing than the person who continues to rent.

Beyond that, they get the obvious added benefits of equity appreciation.

Mr. ATKINSON. Mr. Sheridan mentioned that the rentals have become available after a condominium conversion takes place in an area. The people looking for properties to rent increases considerably.

I am just curious as to whether, if I understand your testimony, whenever you convert to marketing for rental properties it becomes very difficult because the demand is greater. Is this what you said?

Mr. SHERIDAN. I'm not sure, Congressman.

Mr. ATKINSON. My point is when someone comes into a neighborhood and takes over a building, then the value, of course, is going to go up in the general area because something is happening in that area.

Mr. SHERIDAN. Are you saying the impact on rents?

Mr. ATKINSON. Yes.

Mr. SHERIDAN. Let me address that.

It is interesting the way the market works. It doesn't always do what you expect it to do.

Right now, for example, at the Philadelphian, the same building the chairman and I were just talking about, what we observed was that people were paying residents cash premiums in order to be able to buy the units.

In addition, they were giving them what came to be the market, 3-year leases at no increase, fixed. That is very interesting.

That is not what you or I would have expected to happen; right?

Mr. ATKINSON. Correct.

Mr. SHERIDAN. Another example is the building we are in the process of doing the major rehab on, the Touraine had 126 residents in it on February 1 when we said we would not renew any leases, we would respect all the leases but we would not renew them.

We presented a very significant economic package to incentivize people in a positive way to leave early. Then as of today, 112 out of 126, almost 89 percent, have moved out. Sixty-six percent already moved out in 2 months. That's incredible.

Mr. ATKINSON. This is the point, I guess, I wanted to reach.



When you make a condominium conversion, only certain people can participate in that. I don't know how much the rents increase; you say they stay pretty much level.

Mr. SHERIDAN. It varies.

Mr. ATKINSON. I would have to assume then that when other people see they have to buy in, that of course forces them out and they start to look for other areas. They want to stay in the general neighborhood.

Everybody else around knows that. Now there is a greater market; there is an influx; there is a peak there.

Mr. SHERIDAN. What we are seeing currently is precisely not that.

The contention is that there are no apartments in center city. That is not so.

In fact, within a very short period of time, people found alternative housing. They made their individual judgments.

I am not going to suggest that all rented at lower rents, because I know some found apartments at lower rents and some paid higher rents.

But the contention there were no apartments was not true.

We also were inundated with calls from landlords. What we did was to run ads to help our residents find alternative housing.

If it was such a tight market, we would not have had that. The choices were substantial.

Nevertheless, it is still an inconvenience, but you are asking a different question than that.

My own experience in most markets is that the rental market is not nearly as tight as, in fact, the landlords would like you to believe.

Mr. STACK. I would also like to respond to that, Congressman, in this way.

As I pointed out earlier, in most of the projects we have done, about 80 percent of our buyers have been first-time buyers who have come from other rental projects.

As they leave a rental project, that opens up a rental unit and makes it available for somebody else. It isn't that they are coming from a single-family home and taking a rental unit now off the market. It is, in effect, a transfer.

To give you an example, we are doing a project right now. We are processing it through the city of Santa Ana.

We went out to the surrounding apartments and said: We are going to convert this project next year. We are in the process of planning it. We would like to know if you could help us make units available.

The initial response was: We have no vacant units. We said: Do you have turnover? They said: Yes. In southern California, that is 50 to 60 percent a year.

We have simply worked with the other owners and developed a list. If they have a unit available, they call us. We then tell the tenant we have a unit available. We are not in the process of doing this in terms of converting it, but we let it be known that if they don't want to buy and want to find another place to live, if they will let us know we will put them in touch with somebody who has

a rental unit available. We have a full-time person who does this for this specific project.

That is not unusual. The same thing has happened to us in Denver and in Texas. In Texas, there is a higher vacancy rate and probably little or no problem.

But we have not had a problem because most of the buyers have come from rental units.

Mr. ATKINSON. How do your condominium fees compare with the rent in the area?

Mr. STACK. I can't tell you in a specific case, but on the average, the numbers that I calculated showed the increase in all costs, not just fees, was about 58 percent. The after-tax cost was 8 percent. Those are general numbers, and they vary from project to project.

Mr. ATKINSON. Thank you.

Mr. ROSENTHAL. Mr. Daub?

Mr. DAUB. Thank you, Mr. Chairman.

Mr. Miller, Mr. Stack, and Mr. Sheridan, what is the date that your business first converted its first apartment to condominium? How long have you been in the business?

Mr. MILLER. We were incorporated in 1977, but I started conversions in 1964.

Mr. STACK. My company in 1975. I did my first one in 1973.

Mr. SHERIDAN. I was involved as director of a public company. That first involvement was 1974.

Mr. DAUB. Gentlemen, one question that you can all answer, or you don't have to answer if you don't want to.

Is Invsco giving your business a bad name?

Mr. SHERIDAN. On behalf of the council, let me insulate my two associates.

I think that that is a difficult question for us to respond to.

Mr. DAUB. Yes or no.

Mr. SHERIDAN. I think that beauty is in the eyes of the beholder, I suppose.

Some of their approaches are different. There are substantial style differences.

I think that recognizing that, if the chairman can tolerate a compliment.

The industry started work on a code in the middle of last year. Like a lot of things it just got put on a shelf.

Frankly, as a result of these hearings, we reexamined the need for that. I think that all of you collectively should recognize in an indirect but nevertheless effective way that the industry through the leadership of the Multi-Housing Council said that a code of performance is appropriate. American Invsco is a member of the council. If they choose to continue to be a member of the council, they like any other member will have to abide by that code.

I can also tell you personally, and I know that I speak for probably all of my associates on the board, it won't be a paper tiger.

We understand the industry. We understand its pluses. We are perfectly willing to talk about the pluses. I think we also understand the minuses.

Mr. DAUB. I am very much in favor of any industry or profession's housekeeping being done. I think that is commendable.

I am curious. Hasn't Invsco been in this business longer than all of you at the table?

Mr. SHERIDAN. No; not at all.

Mr. DAUB. Then why don't you answer my question yes or no? If they have some bad practices, why don't you talk about them. If they have some good practices, why don't you talk about them? They are bigger than you; right?

Mr. SHERIDAN. Yes; they are. But that's the only issue, I think, where there is a contest. They are larger. We don't think they are better.

Mr. DAUB. I understand.

Mr. SHERIDAN. A lot of things that you hear may or may not be accurate. Frankly, I am reluctant to talk about another operation that I don't know on a firsthand basis.

I think that we are addressing it in a positive rather than a negative way.

We are saying, on behalf of the industry, that we are going to develop a code. If you want to play by our rules, you have to deal with the code. If you don't, then we have to let the marketplace make its judgment if you are unwilling to live within the rules that we set.

I think that that is a positive response to what you are seeking, Mr. Daub.

Mr. DAUB. Would you other fellows like to comment on that?

Do you feel particularly unhappy about being here because of Invsco being in the limelight?

Mr. STACK. I'll respond to that, and I know that Mr. Miller wants to also.

No. Very frankly, I can't respond to your question on American Invsco Corp. because I am really not familiar with them. I'm not familiar intimately with their practices.

I will respond that I am glad to be here, because I think it gives us a real opportunity to make our case known and to, hopefully at least, raise some ideas and some issues that each of you can go back and have your staffs work on and that maybe you can create or come up with some new ideas whereby the Congress can improve the housing supply problem in this country today.

I think that is probably why we are all here.

Mr. DAUB. Great. Thank you. Mr. Miller?

Mr. MILLER. Frankly, I am so involved in running my own business that I don't pay that much attention to American Invsco Corp. But I have seen how their business has evolved.

When they spoke today of an ombudsman, that is a great idea. We do it in a different fashion.

I would like to level a comment and perhaps a criticism. I don't mean it to be.

I sat here for hours this morning. I was wondering what kind of hearing are we having today. Is it a hearing into the problems of the displacement of the elderly and lack of rental housing and so on, or is it an inquiry into the business practices of American Invsco Corp.

Obviously, the practices of American Invsco Corp. are of some importance to this committee or else they would not have had the hearing.

I think even more important is the number of conversions that have taken place and that will continue to take place. There are reasons for it.

People want condominiums.

I can tell you that in Sandburg Village in the final phase, people were paying as much as \$10,000 to buy a lease. That is unheard of.

There were ads in the Chicago Tribune on Sunday, which is really the marketplace for real estate, about selling leases. People want to own something besides rent receipts for a lifetime.

I think the committee should have looked at these other issues and they did to some extent, but there was so much on Invsco.

I went outside the committee hearing room and said to my colleagues: What is this hearing for? Invsco or how we can correct a displacement problem creatively?

The way it can be done is to recognize the laws of supply and demand.

Let's talk about economics. That is what every businessman looks at—the economics of a situation.

If we address ourselves to the economics, we will get to the solutions of the problem, rather than focus on Invsco.

Mr. DAUB. I appreciate that. I couldn't agree with you more.

Mr. ROSENTHAL. Mr. Levitas.

Mr. LEVITAS. Thank you, Mr. Chairman.

On that last point, Mr. Miller, it is my understanding, regardless of how it may be perceived by some out there or up here, that this hearing is not about American Invsco Corp.'s business practices, except to the extent it may be reflective of industrywide concerns. They are the biggest and, therefore, they are the ones that the chairman and others felt should be brought forward.

I think there is clearly a social and economic purpose to condominium ownership. It evolved as a result of marketplace pressures. But that is a separate question when we get to the conversion aspect. That is where I would like to direct my questions.

There is obviously a displacement problem that is going to have to be dealt with, either by the industry or by Federal, State, or local governments.

The question I want to ask is what is the reason for conversion of the sort that you described in the absence of the present structure of the tax laws in this country?

I am talking about conversion now, not condominium ownership.

Mr. SHERIDAN. I am not sure of the question.

Mr. LEVITAS. Let me see if I can make it clear.

In the absence of the nature of our tax laws in this country, what is the economic incentive for conversion, not for condominium ownership or construction but for conversion.

Mr. SHERIDAN. The economic incentive for the people who own the properties is essentially twofold. One is that operation of rental properties is not a particularly attractive business. Two, once you start to address that objectively, you realize if you owned—I will use some numbers that are real numbers. It happens to be a property that we are in the process of acquiring.

These people own a property worth \$35 million net of the debt. They make a million dollars a year. That is a lot. The owners are well-along in years, and that is plenty of money. Now their heirs

are saying: Why do we continue to own this. We would be better off selling the property.

Mr. LEVITAS. That's my point. They can get a capital gain out of it. They can't convert it themselves because the present tax law would make them dealers rather than owners.

Mr. SHERIDAN. If you put that issue on a shelf, they are going to sell for less rather than sell for the full values. So the tax issue deals with that.

But it is, as Jeff Stack said, a substantially different business. If they were selling it at retail, it wouldn't be \$35 million. That building is worth substantially more when you finish with the entire marketing process. It will take several years to sell that property.

But the issue is one purely of where does a rational investor go. Into what basket does he place his eggs.

When you have something that is worth that much money and you are only getting about a 3 percent return, the conclusion is this. The kids have told their parents they're crazy; sell the thing. That is essentially the nature of the family discussion.

That's the reason.

Mr. LEVITAS. It just seems to me that if our tax code does serve certain economic and social policies, as obviously it does, whether it is capital gains or whether it is depreciation or interest deduction, or whatever it is, what are we getting for our taxpayer dollars or our tax expenditures in this area?

Shouldn't the policy be to encourage and stimulate the creation of new housing units through depreciation or other programs which would encourage creation of new housing rather than the conversion of existing housing?

Mr. SHERIDAN. The change in the last tax code went exactly in the opposite direction.

You destroyed spec building when you took away the opportunity to take interest deductions during the construction phase and write it off over a long period of time. Spec building just died.

Quite the contrary to what you are suggesting, the last change in the tax code went 180 degrees and spec building went with it.

Mr. LEVITAS. I agree with you in that regard.

I am saying that what we are looking at in this industry is the conversion of existing units.

There is agreement there are problems with displacement. They are going to be dealt with.

Incidentally, I want to compliment your industry for developing the code and the chairman for being a catalyst in seeing this come about.

I will give you two warnings though. You might just file them away. Watch out that the FTC doesn't come along and legislate that as being their code. The second thing is if they don't do that, watch somebody who doesn't want to comply with your code sue you for engaging in restrictive practices.

But anyway I commend you.

Mr. SHERIDAN. As a matter of fact, it is precisely those sophisticated concerns that have caused our council to be careful in their discussions with the subcommittee and not promise to get that code out within a couple of months. We think we can deal with the



business issues directly, but we think that the legal issues are much more complex and may well be more time-consuming. But at least the process is moving.

Mr. STACK did want to address your question also.

Mr. STACK. I want to clarify first, if I may, something.

Do I understand your question as this: If there were no tax laws, what is the initiating point for somebody to sell or convert?

Mr. LEVITAS. If our tax laws were not as they are today, would there be an incentive for conversion?

Mr. STACK. I think the answer is absolutely yes. I will give you a couple of practical examples, and I think Mr. Miller also wants to respond to that.

Just on a practical business sense, and this is particularly true in my experience but I think it has been true in others too, many apartment buildings get to a point after a period of time where they have major amounts of rehabilitation they need. It ranges from roofs to siding to storm windows.

Mr. SHERIDAN. When do you sell the car.

Mr. STACK. Exactly. That's a very good point.

There is a certain fixed, or relatively fixed income that you are getting out of that apartment project. It is very hard to go out today and finance sufficient repair costs out of that income.

Even if the rates were down sufficiently to cover those costs, most people faced with that say it is time for me to sell the building. Purely and simply, I don't want to go to the aggravation of rehabilitating it.

Beyond that, and I think this may be an even greater impetus for conversions, is the fact that if there is not an insatiable demand, there is certainly a very substantial demand today for affordable housing.

Each one of us here at the table perceived that 7 to 9 years ago. We saw in my home State that you just couldn't buy anything.

Things that I sold 5 or 6 years ago for \$32,000 now resell for \$110,000. At that time they were a good deal. There is a market, and there will continue to be a substantial market because of the cost of housing and the inequity of supply and demand.

Mr. LEVITAS. But Mr. Sheridan said on two occasions that people don't buy these units in a converted building because they want to. They buy them because they perceive they have to.

Mr. SHERIDAN. I said that. I think that that is probably the majority perception.

That, however, changes very quickly, particularly when they start realizing how smart they were and start hearing about resale prices.

It is amazing what happens to the human memory.

Mr. LEVITAS. Thank you.

Mr. ROSENTHAL. The time of the gentleman has expired.

Thank you all very, very much for a very enlightening, important, and significant discussion. I think it will help the committee in its deliberations.

Our next group of witnesses is a panel. We very much appreciate your being here.

Please come up as we call your name.

Mr. Charles Sklar, Mrs. Madge Goolsby, Mrs. Matilda Bright, Mr. Dennis Drewyer, Mrs. Ann Conover, and Mrs. Louise Montgomery.

I would ask each of you to rise so that you may be sworn in.

Do you solemnly swear that the evidence you shall give, touching the subjects of investigation of this committee, shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DAMMANN. I do.

Mr. SKLAR. I do.

Mrs. BRIGHT. I do.

Mrs. GOOLSBY. I do.

Mr. DREWYER. I do.

Mr. ROSENTHAL. Each of you, apparently, has had experience with American Invsco Corp., either bought an apartment or participated in this process.

Why don't we just go down the line. Mr. Sklar, would you tell us what your experience has been and what your feelings are?

#### STATEMENT OF CHARLES SKLAR

Mr. SKLAR. My name is Charles Sklar. I live at the Beaver Hill Apartments, Jenkintown, Pa.

I just want to commend Mr. Gouletas on the help that he hires. I think we have had such wonderful experiences with the help he has had there. Everybody has answered all our questions. We have never had a problem. Everything went smoothly, and we were treated just immensely.

The people we have seen on "Sixty Minutes" who I do know, of course, I lived in the apartment house for about 8 years, most were complainers all the time they lived there.

To go further, all this started about 2 years ago. That is before American Invsco Corp. came into our apartment house.

Rents were going up tremendously, and we decided to form a committee to oppose the landlord for raising our rents. They were going up at the average of about 10 to 12 percent every year. I think it was called the Fox Co.

We had a lot of problems with them. They kept raising the rents, and we got nowhere.

Then about a year or so ago, he informed us by letter indicating he was going to convert the apartments into a condominium. Everybody was frightened to death. Rumors were flying all over. People said the apartments would go for \$150,000 to \$200,000.

People got frightened; some people moved out. It was a terrible situation there.

Then, I think, last November, we got a letter from the American Invsco Corp. saying they were going to take it over.

I went down with my wife and questioned them. They answered all my questions. Never once did they put a gun to my head or force me to buy. I was treated perfectly. They are all perfect gentlemen.

The price was so right that we were just happy to buy there.

During the time that Mr. Fox had said he was going to convert it to a condominium, we did go out and look for a home because we felt that we were going to have to get out. The homes in our area

have gone up so tremendously, we would not have been able to buy one.

When this came about, and when American Invsco Corp. took over our property, we immediately purchased because the price we thought was fair.

They have done everything they promised. They have converted our building into the most beautiful apartment house. We are very, very satisfied with what is going on there.

I have listened to all the conversation here today. I have friends that live in Philadelphia, and I have friends that live in Park City West, which is being converted. I have a son who bought at Society Hill Towers which was converted. I have heard complaints from everybody.

There are people who complain every place there is a conversion. I do know that our place went smoothly, and it was great.

We are very, very happy with the conversion.

Mr. ROSENTHAL. Mrs. Goolsby?

#### STATEMENT OF MADGE GOOLSBY

Mrs. GOOLSBY. My name is Madge Goolsby. I am a widow and senior citizen and a retired civil service employee. I live at Grosvenor Park Condominium Two, 10500 Rockville Pike. I moved there from the home I had lived in for 40 years in October 1977 when it was still a rental unit.

In 1979, American Invsco Corp. converted Grosvenor to a condominium. We were given 45 days after the commencement of the resident program to enter into a purchase agreement to buy the apartment we lived in at a discount.

Senior citizens and handicapped persons below a certain income were given the opportunity to rent their units for a 2-year period. At that time the law was not in effect that required this.

I bought my apartment, as I considered it a good investment, liked the surroundings and the people I had met at the breakfast given weekly by American Invsco Corp. before settlement.

I found that I had many interests in common with some of these tenants.

I am active in the condominium association, as I feel this is the best way to continue to have a good place to live. I am vice chairman of the security committee and a member of the newsletter and social committees.

I enjoy living here and plan to remain.

Mr. ROSENTHAL. Thank you very much. Mrs. Bright?

#### STATEMENT OF MATILDA BRIGHT

Mrs. BRIGHT. My name is Matilda Bright. I live at 10500 Rockville Pike. American Invsco Corp. is the developer.

I live in a one-bedroom apartment. I moved there in 1972. My husband and I moved there. He died in 1978, and I moved to a smaller apartment a year before the conversion. It was converted in 1979.

Everything was explained to me. I could have stayed for 2 years as a renter, but I chose to buy. I was treated fairly and courteously by all of the employees of the developer.



I feel there is pride in ownership. There are many social functions and meetings and you meet the neighbors. I, like Madge, am very active. I am editor of the newsletter.

I feel that the satisfied owners are in the silent majority. The dissatisfied ones are in the vociferous minority. You will never have 100-percent agreement on anything.

I'm glad that I bought, and I had absolutely no trouble. I have lots of friends who stayed there. Some of them rented, and some of them bought.

That's about all I have to say.

Mr. ROSENTHAL. Mr. Drewyer?

#### STATEMENT OF DENNIS GLENN DREWYER

Mr. DREWYER. Mr. Chairman, with your permission I would like to read a personal note to you from Mrs. Mary Louise Montgomery who became ill yesterday and could not be here.

To the Honorable Congressman Benjamin Rosenthal:

DEAR CONGRESSMAN ROSENTHAL: I am so disappointed that I cannot come to speak before your committee due to illness, the flu.

I wanted so badly to express my appreciation and kindness that I received when American InvSCO purchased the Promenade.

Mr. Kaplan and Miss Solatar immediately informed me that they would give me a 2-year lease because of being handicapped and 70 years of age. They eased my mind so much, as I was not financially capable to buy an apartment and I had recently been widowed.

They have made me so happy to know I have 2 years to plan my future.

I also must say that the entire staff of American InvSCO are very kind and thoughtful.

Sincerely,

MRS. MARY LOUISE MONTGOMERY,  
Apartment 616, South.

My name is Dennis Drewyer. I live in Apartment 717 South, the Promenade. I am a registered landscape architect, site planner, and design consultant.

I work for the Montgomery County Public Schools. I am their site administrator. I oversee approximately 200 properties for them, both improved and unimproved.

I am a member of the Maryland National Capital Park and Planning Commission's Subdivision Review Committee, a multi-agency steering committee which recommends the acceptance or denial of all applicants for new subdivision development in Montgomery County for the final approval of their elected planning board.

Please be aware that I am presenting this testimony today as a satisfied new homeowner and a 2-year resident at the Promenade cooperative community, and not as a spokesman for my employer or for Montgomery County or any agency with which I am affiliated in my work.

I have an advanced degree in landscape architecture from the University of Georgia, and passed the national registration exam in 1972. For the past 10 years, I have been employed in professional practice with a private contractor, a nationally recognized architectural engineering firm, a major land developer in Atlanta, Ga., my own design and development firm in Atlanta, and most recently in the public sector with the Federal Government under the employ-

ment of the Veterans' Administration and my current local agency, the Montgomery County Public Schools.

As a satisfied buyer of an executive one-bedroom apartment at the Promenade, I would like to speak out in favor of the treatment I have received during and since my initial sales negotiations with the American Invsco Corp. I am not being paid to testify here today, nor do I intend to ask for or receive any compensation as a result of my comments to this subcommittee.

I hope my comments will take some of the cloud off our property so that sales can continue and the facts can be presented.

Various charges of misrepresentation, pressure tactics, and illegal practices have been leveled against the American Invsco group and its agents which have not been substantiated or evidenced in any way in my dealings with them, dating back to their public announcement of intent to convert the Promenade to cooperative ownership.

Upon receiving written notice of the availability of my apartment for purchase, under the cooperative format, I arranged to meet with an on-site sales representative to discuss the program and my options as a rental occupant of the property.

Following several return visits and more detailed discussions of the terms of a potential purchase agreement, I decided to make a \$1,000 deposit on my particular unit and thereby qualify for numerous discount advantages.

Although it has been painted as a developer's pressure tactic, this early decision opportunity resulted in an approximate 15 percent savings on the cost of my unit, as it is now offered to the general public.

Originally, this tenant's discount package was to be available only until September of 1980, but it was extended several times by American Invsco and eventually moved back to late December of 1980.

Having already acted on this bonus opportunity, I was initially concerned over the fact that the rules were being changed after I had paid for the relative benefit of others. I was also fully aware that many tenants needed more time to consider a purchase commitment and were entitled to the same benefits I was, themselves being renters.

These voluntary extensions by American Invsco hardly fit my definition of pressure tactics.

At the same time that the conversion process was being outlined and the sales structure was being presented, I accepted a position on the somewhat controversial resident assistance committee. This has been mentioned many times in Monday's testimony incorrectly and today in some of your direct questions. I would like to clear this up a bit.

It was a five-member panel, unknown to the members and the residents of the Promenade, for the protection of the panel members.

There were three men and two women, myself being one of the men. One of the women was approximately my age. The other lady was disabled in health and elderly and widowed. One of the gentlemen was disabled and over 60. The other gentleman had a heart condition and was over 60. These were the only five votes on that

committee. No Invsco people had a vote in the selection of these people.

This developer-initiated program provided a format under which numerous residents could apply for a hardship extension of their leases, based upon their inability to buy or relocate immediately.

The applications were reviewed by our committee without the knowledge of the resident's name or apartment number, giving individual consideration for their infirmities, in either income, age, general health, or physical disability as qualifications to remain as renters for an extended period in their own apartments.

Again, I just can't consider this an element of cold-hearted business procedure when you set aside over 100 units from the sales inventory for this purpose.

Even if these units were all the small one-bedroom apartments, like mine, and they weren't, they would represent a minimum of \$6.5 million in sales taken from the market.

Following these early months of difficult negotiations, extended deadlines, and endless rumors, there were still a few residents who would not buy or could not afford their apartments. One more concession was made to them which would allow them to stay on as renters, even after their original leases expired.

American Invsco Corp. promised that these tenants could remain in their apartments until they were sold, at which time American Invsco would move them to a similar unsold unit at Invsco cost.

To my amazement, a few misguided leaders, and I mean a few, recommended rejection of this final offer and convinced a number of residents to follow them with promises of further concessions and even lower prices.

These people now call themselves the Promenade Tenants Association. They testified here on Monday.

This minority's failure to obtain further benefits or price reductions is the sole source of the negative reports you have been bombarded with concerning the Promenade conversion.

They do not represent a residential majority at the Promenade and never have.

I am a member of the recognized resident organization, the Promenade Homeowners' Association. I am just one part of a representative membership of new homeowners who are working within a committee structure to hold American Invsco to their promises.

I now own a one-bedroom, one-bath luxury apartment in an exclusive neighborhood with a full complement of leisure time amenities and convenience outlets.

I made a \$3,000 total downpayment exactly 90 days ago that included the \$1,000 I put down last July. I have a total mortgage, underlying and other, of \$52,000 firm at 14 percent on a home that today lists at \$65,000. This was 90 days ago. Mine is also quite salable in that there are only two of them left.

With a 25-percent increase in 3 months, or a \$13,000 return on \$3,000, I wish I had been allowed to buy two of them.

Now my mortgage price is fixed for 30 years. My rent would not have been.

A member of the Promenade Tenants Association, not my group, spoke on Monday about an exorbitant price of his tiny one-bed-

room, one-bath apartment. Very rightfully so, you questioned those kinds of figures for that kind of space.

Mr. Chairman, I would like to clarify a very important part of that discussion.

There are four types of one-bedroom, one-bath apartments. I have the smallest.

In keeping with the committee's stated objectives regarding financial impact, which Mr. Daub has mentioned several times, my one-bedroom apartment is 650 square feet. Then there is a deluxe one-bedroom apartment with 1,044 square feet. Then there is a luxury one-bedroom apartment with 1,185 square feet. Then there is the testimony on Monday. That gentleman's apartment is one bedroom and one bath, yes; but it has 1,211 square feet, comparable to any two-bedroom, two-bath apartment in the Bethesda area.

It was unfortunately misrepresented at 700, maybe 800 and possibly 900, square feet to Mr. Daub by the testimony.

At 1,200 square feet, it is as large as a two-bedroom. It has a double balcony and two exposures looking both east and west. It is hardly the economy size unit that mine is and almost twice the square footage.

The previously quoted price for that prestige one-bedroom apartment was correct, \$104,000. That is quite high for a one bedroom, but this is a little special.

It had an \$81,000 mortgage that the gentleman said he would have jumped on if he could have bought it at that price. But then they told him about an underlying mortgage of \$23,000 for the total of \$104,000. He did not mention, however, that if he had decided to buy his unit, he could have gotten it for \$91,000. Today, the price has gone above \$104,000, apart from the various discounts that were available to him as a rental occupant.

My rent was formerly \$370. My payments now are \$445 for the regular mortgage; \$180 for the underlying mortgage, for a total of \$625.

In January of 1982, I will assume a maintenance fee of \$100 a month.

The other gentleman's apartment will have a maintenance fee of \$180 a month.

If you looked at his house as a \$104,000 single family residence, I don't think a \$180-a-month add-on maintenance fee would quite cover the cost of gas, electric, sewer, water, trash removal, building repair, landscape improvements and maintenance, a swimming pool, security system, a grocery, a deli, a bakery, a dry cleaners, and a bank.

I think he passed up a very good deal.

Condominium and cooperative conversions today offer a unique opportunity for the single-income family, the retirement age worker, and the many moderate income residents of the Washington metropolitan area.

The average teacher, nurse, police officer, or tradesman is not being paid enough to qualify for a single family house which now costs \$100,000 and even more in Bethesda.

The graduated prices, the small downpayments, and the group financing packages associated with the conversion program enable a wider range of people, both young and old, to acquire affordable

housing and take advantage of the property value increases and the inherent tax benefits which apply for some of those people.

Maybe we shouldn't be investigating the high visibility corporations who are willing to take a \$50 million gamble in an unstable economic market, but rather the local legislation, and I mean local legislation, which shackles the housing industry with rent control and depreciation laws, effectively eliminating the future prospects for additional rental unit construction or subsidized housing facilities.

The very best evidence of this need for local treatment and not Federal intervention was presented here in Monday's testimony by a gentleman who I believe was a lawyer from Philadelphia who I believe was a housing specialist.

He was allowed to talk long enough to present his position for Federal guidelines. By the end he was saying that it was a local and very different problem from project to project. Or, as he said, from Poughkeepsie to Pittsburgh to Philadelphia. They were all different.

It would be very difficult for Federal legislation to address each individual type of structure and demographic makeup.

If these local municipalities could only see the tremendous potential for increased property tax revenues, when a rental property assessed at \$20 million is purchased for \$50 million and then can be eventually taxed at its condominium resale value of \$100 million, this 500-percent increase in revenue base could be put to very good use in a comprehensive rental housing program for low-income and fixed-income residents who cannot afford to buy, or do not qualify for, interest deductions in homeownership.

My only regrets in this entire experience have come as a result of the atmosphere that the chairman has asked about, what is happening at the Promenade. What are these remarks that he hears?

Again, I have to say it is from very few people. I think his lunchtime intrusion today, whoever was speaking to him, was unfortunate because that was not under testimony, as were many of the other comments that have been on television and picket lines and written and put under my door.

My only regrets are the hostility created by unnamed individuals who have sought to prohibit me from exercising my individual rights. I personally resent the existence of an atmosphere of hatred in my own private residence and the constant intervention in my private life.

Being harassed and obstructed upon simply trying to drive in or out of my property by picketers. If you are thinking they are in the majority, there were four on Saturday and six that I saw on Sunday. I don't think these people are telling the Promenade story.

The irresponsible and indiscriminate attacks through the media using only innuendo, insinuation, and misleading statements, as well as the written materials that are handed out freely, in addition to enduring the verbal abuse and the negative atmosphere, which even their people spoke of, is bad enough. But even worse are the criminal acts of vandalism that I witness every day. I am afraid I will be a victim of such acts in the future, and have been in two instances.



Unknown persons have destroyed property. They continue to trash the premises. They put out their cigars on brandnew wallpaper, and when it is replaced they either do it again or remove it.

They destroy our furniture. They carve on our permanent wood-working. They remove brass fixtures from that woodworking. They have threatened physical harm to renovation workers.

I personally have had my convertible top slashed into 18 strips, with nothing stolen, which does not sound like a theft to me. Then I lost a \$400 stereo out of my car.

I am not saying these are displaced tenants. It is just an unfortunate circumstance that has come since this conversion process has begun.

I can't see an owner wanting to destroy the property they just invested in.

The worst of this has not affected me. It is the call-in of bomb threats and false alarms for the fire department. I can walk my seven flights of stairs very easily. But I had to help a woman who was bedridden leave the building for each of those threats. She lived across from me. I have no idea what impact that experience has had on her life or will eventually have. She no longer lives there.

I have been told, when asking after her, that she is in a nursing home, probably by choice. But they are affecting more people than just me. I think I am the least-affected in that instance.

Things like the Sixty Minutes telecast where a few loud people are quoted, especially the same Philadelphia lawyer who uses graphic terms describing the developer as having a gun to the head of the resident, only serves to promote this kind of reaction and this kind of behavior and condones it all at the same time.

This may be typical of the behavior of other displaced renters in other sections of the country, but it is not something I have ever experienced nor is it typical of the type of people we want to remain at the Promenade as homeowners anyway.

No one ever guaranteed that I would one day own my own home, nor did they guarantee that to my father and his nine children or my grandfather before him.

I have been taught that you must earn that privilege and that it is not handed to anyone. Those who can't buy shouldn't try to destroy that opportunity for those who wish to.

I want to thank you all very much, and those members who are not in attendance at this time, for your individual consideration of the strictly personal views which I have presented here today.

I am confident that this committee will not be misled into accepting intense volume as majority voice, isolated pressure as total perspective, or personal emotion as absolute truth in weighing the entire testimony on this far-reaching topic of national concern.

Thank you.

Mr. ROSENTHAL. Mr. Dammann?

#### STATEMENT OF DAVID A. DAMMANN

Mr. DAMMANN. Thank you, Mr. Chairman.

I will not read my statement. I will just ask that it be put in the record and I will try to highlight.

I am here as a citizen. I have been very involved in the human rights of people, whether it be low income, handicapped, or minority groups that have faced during the civil rights movement a number of hardships placed upon people.

In light of 14 years of that type of work and the change in the Nation today of cutting back funds and other types of programs, I see a great need for a merger and a joint relationship between city, State, county, and Federal governments and private industry.

I think we can learn from each other.

Today I heard very eloquent statements from both sides of the table, very thought-provoking.

I think one of the issues, when we come down to the issue of the poor, the elderly, or the handicapped, is that we are talking in most cases of a lack of economic base.

We have played with that one particular coin all day.

My feeling and my concern and why I paid my way up to speak is some relationship I have had with Invsco. I am not a condominium owner. I don't live in their building. I am not on their payroll.

As a private industry in Atlanta and working in the area I do, especially also serving on the Governor's Council on the Handicapped, this one company has been willing to take recommendations and meet with the low income. They have been meeting with the elderly and meeting with the minority groups in our city.

I am not aware of all the issues that have come up about the Promenade or Philadelphian. It is not my city. But I do know the company spent \$60,000 to design a demonstration model for handicapped people.

All of us, I guess, in the work we know are about a minute away from being handicapped. With any accident that could happen. And how it changes life.

The Federal Government does not have the money. The State government does not have the money, nor does the city government have the money and the technical knowledge to deal with all the vast problems that private industry does.

One of the areas that we were exploring in Atlanta, which I think needs to be emphasized, and I am saying exploring, but it's the first time.

Federal housing has failed miserably in our city.

When I was deciding on a military career and I realized all the airplanes and submarines were going to be given to the lowest bidder, I figured it was safer in a foxhole.

When you build buildings that are not made to stand and the problems of displacement and the problems of increased rents, the economic base that is missing is in the needs, I think, of housing.

We discussed the lack of individual housing. One of the areas we were exploring, which I think is a credit to the company, at least from my experience with them, is the area of how we work with the city of Atlanta Federal Housing Authority. How, indeed, can poor people buy a home.

Those are areas that are being explored.

If it is a condominium concept or a cooperative.

In my type of work, I have worked from feed a pig programs to grain buying programs in the rural areas to try to work in urban areas.

I think I am a cost-effective person. I have done well in life. My particular agency which I work for operates with about a 5-percent overhead, and that is pretty good.

We are looking for ways and new methods of meeting the needs of people.

I know Invsco does have a consumer relationship division, which David Kaplan spoke about before. He has met with a number of people, delegates from the White House Conference on Aging from our city and from our State.

I guess the thing that had me upset was that we are doing a paradoxical. In many cases, like myself in my professional job, I have been instructed now that I am not allowed to work with private industry, which is silly in my opinion, because I think everyone is a citizen and we all have our rights.

I came before you today to state that I think, at least in Atlanta, areas that have not been explored by other industries, areas that have not been explored even by Government, have been explored in our city. That is to have an advisory council.

The last meeting, which I attended on my own time, was with the city officials, the housing authority, the neighborhood planning units, both white and black, and the elderly. They have invited the concept of learning more about condominium conversion and looking at the principles of possibly setting up low income and moderate housing systems along the conversion premises that were at the hearing here.

I thank you for your time. I hope you will take my document as presented.

Thank you.

[Mr. Dammann's prepared statement follows:]



STATEMENT OF DAVID A. DAMMANN

I, David A. Dammann, stand before this Congressional Subcommittee today as a private citizen. Through my employment as the Georgia State Director of Action, I have developed an understanding of the problems and needs of handicapped/disabled persons, the poor and the elderly. My experience as a public official includes service as a volunteer in the civil rights movement during the early sixties; having the pleasure and opportunity to serve as an Assistant Director for the National Urban League in the Southeast Region; serving as Regional Director of Vista in Federal Regions 1 and 2; Deputy Director in Federal Regions 3 and 4; and as Training Director with private industry training Vista volunteers and community groups. I have developed a sound understanding of the needs of people particularly the low income and elderly. I have also realistic experience and knowledge of the cost and waste in the delivery of services to the above.

I also have experienced first hand many of the accomplishments of American Invsco and its subsidiary Home Marketing of America, Inc. in studying and assisting

the needs of the elderly and physically disabled. Let me say at the outset that I stand before you as a knowledgeable responsible citizen who has incurred expenses at my own costs to assist this Company because I believe government must work with industry to bring about comprehensive joint cost-effective programs that not only meet immediate needs, but future needs as well.

By the turn of the century:

- (1) it is anticipated that 1/3 of the population will be over sixty.
- (2) 1/3 of the population will be under the age of 18, leaving the remaining 1/3 of the population to comprise most of the working force.
- (3) Inflation at the going rate will have increased expenses by 200%.

Who is to pick up the tab of all these related costs and problems?

Today's statistics also demonstrate that one out of every 11 people in the U.S. are handicapped. Each of us, you and me, are just one minute away from an accident

that could cause a whole different way of life.

If you, your wife, child or any other family member were to become handicapped, could you continue to live in your house? Could your child continue to go to the same school with their friends? Are they barrier free? Most likely your answers are No. Like many, I am married, have children, a spouse, a father who is 79, and two inlaws who are 74 years of age. Who is responsible for their health and keeping when the time comes for assistance?

My grandmother passed away three weeks ago at the age of 91. During her final years, it cost over \$1,200 a month for nursing homes. She was there for 2-1/2 years. We all need to address ourselves to alternatives for the government cannot assume and in reality should not assume all the costs and responsibilities.

The poor need to establish a financial base. Most wealthy people today or at least middle class people have established a financial footing by owning their home. Many younger people and poor people cannot do that today due to inflation and the high cost of

buying and financing a home. It is my opinion that condominium and condominium conversions make this dream or promise a truth.

There is no simple single answer to these few but far reaching difficult questions. One logical approach is the joint effort of local, state, federal government and private industry working close together to address the needs of the poor, elderly and handicapped. This is taking place in Atlanta and American Invsco has been a leading force.

American Invsco has demonstrated its commitment to address the need of handicapped/disabled people for example by building a demonstration "barrier free" model at their cost of \$60,000. This was based upon the recommendations of citizens and professionals like myself. This model can be duplicated at marginal cost.

The needs of the elderly as unpleasant as it is to acknowledge or admit, become increasingly similar to the more physically handicapped as a person grows older. To many people like my grandmother and father, their homes offer their security in their older life. The

reselling of the home at a later age helped in the payment of increasing medical costs that could have devastated any one component of our family or put extra burden to the taxpayers.

In Atlanta, American Invsco has also offered financial assistance to:

1. The National Center for Handicapped Rights.
2. National Association of Retired Senior Volunteer Program Directors.
3. Offered assistance to various volunteer programs.
4. Reviewed possible technical assistance to low income housing projects.
5. Has created an advisory council representative of city, state, federal governments, plus delegates of the White House Conference on Aging as well as representatives of the white and black communities, the elderly, the handicapped and low income.

Earlier I stated I was here as a citizen - that is because my agency has ruled that I cannot offer

technical assistance to American Invsco because they are profit making.

I may not have a full understanding of all the issues before this Committee. I do know that American Invsco has illustrated commitment in real dollars and time in reviewing and attempting to establish some answers and alternatives. Condominium conversion in my opinion is like the railroad industry a century ago. It created opportunity, jobs, investment, profits - but if you owned the land that was used, you were hurt.

It is my belief that under our democratic republic based upon the free enterprise system all people can benefit in the long run. American Invsco has established a consumer relations division which serves the residents. This division has shown particular interest in the needs of handicapped and elderly and has illustrated its concern in keeping older people active, alert, and in promoting volunteer activities that will benefit the general public. In fact, the members of the Consumers Relations Division of American Invsco have completed the introductory course in familiarizing themselves with the needs of the handicapped.

Crime against the elderly is listed as one of the major concerns for the White House Conference on Aging. Condominiums offer a form of security against this threat.

In summary, I present this testimony because after 12 years of high level experience in social services, I believe that condominium conversion can offer many solutions for future problems. Condominium conversion can offer economic stability to a community, allow persons to buy who otherwise could not.

The fact that American Invsco is nationwide willing to assist handicapped/disabled persons have a barrier free home, they become a new sense of security and mobility for the handicapped.

Recreation, security, activities, etc. all can delay senility, this company has been exploring all the information in this area. By having people active, we prevent institutalization thus support independent living. Owning property and its future sale potential can assist families in paying future medical or long term care bills if needed.

I hope that you will take these thoughts into consideration.

Mr. ROSENTHAL. Mr. Daub?

Mr. DAUB. You look around the room now, ladies and gentlemen, and the television cameras are gone and all the people that had the privilege of testifying before you have gone. Somehow it doesn't seem very exciting any more. Even most of the members of this committee are gone.

With great respect and understanding for my colleagues being busy, I compliment the chairman because I think his motives are essentially sincere.

He was kind enough to give each of you the opportunity, as well, to be heard. It has been a 3-day hearing, and I think some of you I recognize have been here all 3 days. Others of you were here just today.

I think it is important that your testimony be in this record.

Mr. Drewyer, your presentation was particularly eloquent. I'm just sorry that somehow in the process of staff investigation, your group wasn't stumbled upon at the Promenade for part of the contribution to the record of this subcommittee before this late hour of your testimony being entered in the record today.

Mr. Sklar, let me get some of your history in the record now. You are a Beaver Hill tenant-purchaser, right?

Mr. SKLAR. Yes, sir.

Mr. DAUB. Married?

Mr. SKLAR. Yes.

Mr. DAUB. Sixty-three years of age.

Mr. SKLAR. Sixty-four.

Mr. DAUB. Retired from the construction business?

Mr. SKLAR. No, I was in the meat business.

Mr. DAUB. You applied for a 2-year special assistance lease?

Mr. SKLAR. At the beginning, yes, I did.

Mr. DAUB. Which is guaranteed by Philadelphia law; is that correct?

Mr. SKLAR. Montgomery County, I think.

Mr. DAUB. In all other respects then, you were treated as you testified by the people in the building where you purchased the converted apartment. Everything was happy from that point on.

Mr. SKLAR. Absolutely. Absolutely.

Mr. DAUB. Madge, is that your first name?

Mrs. GOOLSBY. Yes, sir.

Mr. DAUB. They have listed here senior citizen. Do you want to be called a senior citizen?

I am a member of the Select Committee on Aging, and I want you to know I think that as an older American that is a proud title.

You are widowed and a tenant for many years, 8 or more, at the Grosvenor?

Mrs. GOOLSBY. Since 1977.

Mr. DAUB. And you are active on the operations committee of the homeowners association; is that correct?

Mrs. GOOLSBY. That's right.

Mr. DAUB. Mrs. Bright? I like that name. I bet you get kidded about that a lot don't you.

Mrs. BRIGHT. I have to live up to it. It's hard.

Mr. DAUB. Can I refer to you as a senior citizen also?



Mrs. BRIGHT. Yes. I am 70 years old.

Mr. DAUB. And widowed.

Mrs. BRIGHT. Yes.

Mr. DAUB. And a tenant for 8 years, also at the same building?

Mrs. BRIGHT. Yes.

Mr. DAUB. Did you know Madge a long time?

Mrs. BRIGHT. Yes. We worked together. She is on my newsletter committee.

Mr. DAUB. You are head of the newsletter committee.

What's a newsletter?

Mrs. BRIGHT. It's a community paper where we keep all of the residents informed of all the social events and all the things that the operations committee and all the other committees are doing and what the board of directors is doing.

We are having growing pains, and we are sort of just getting started.

Mr. DAUB. How many people subscribe to your publication?

Mrs. BRIGHT. It's free. We put it in the pigeonholes.

Mr. DAUB. It's a lot of fun too isn't it?

Mrs. BRIGHT. It is a lot of fun.

Mr. DAUB. Do you find the owners in the building really rely upon that informational piece, that communication device?

Mrs. BRIGHT. Yes, I think so.

Mr. DAUB. It is not subsidized by Invsco or anyone else?

Mrs. BRIGHT. No, indeed. Not at all. We have ads on the last page that subsidize it. The tenants advertise. The little store and the beauty shop in the building and the valet shop, they all advertise every month on the back page. It pays for the thing. We are all volunteer workers.

Mr. DAUB. I think that is terrific.

Mrs. BRIGHT. There is nothing like getting involved; it is just great.

Mr. DAUB. Age is good for the soul isn't it?

Mrs. BRIGHT. Yes.

Mr. DAUB. It is really just a number for retirement purposes, as far as the Government is concerned. I don't know why they have those rules otherwise.

Mrs. BRIGHT. I don't either. I used to work on the Hill. I loved it. I worked for Senator Griffin for 15 years.

Mr. DAUB. I have only been here 3 months, but I like it too.

Mrs. BRIGHT. I hope you stay a long time.

Mr. DAUB. I thank you very much. I look forward to that as well.

Mr. DREWYER, is that French?

Mr. DREWYER. French Canadian, way back.

Mr. DAUB. Why didn't you move out of the building? After all, I take it you are single.

Mr. DREWYER. Yes, sir.

Mr. DAUB. This was going to jump your costs about three times; right?

Mr. DREWYER. Yes, sir.

Mr. DAUB. Your out of pocket cash flow was going to triple.

Mr. DREWYER. No, sir. That is what is so misleading about the whole situation.

There are tax deductions that I qualify for. My net will go from a \$370 rent to about a \$470 net mortgage payment. I figure the amount of tax returnable interest that I would get in the following spring's income tax rebate, and I have them take out that much less from my paycheck over the paycheck periods.

Mr. DAUB. So you end up really building an equity on top of having that advantage from a tax concept.

Mr. DREWYER. Yes, sir. Very much so.

Mr. DAUB. You are a single person owning something.

Mr. DREWYER. Yes, sir. My first purchase, by the way.

Mr. DAUB. Your experiences in Atlanta, Mr. Dammann, were not then direct with Invsco?

Mr. DAMMANN. Experience with the planning and working on the deinstitutionalization.

Mr. DAUB. I read your statement.

Mr. DAMMANN. I have worked with Invsco by going to them and asking them to make special compensations and meet with the people that I represent.

Mr. DAUB. Who were those people that you represented?

Mr. DAMMANN. The people I represent in my work in many cases are the low income, the elderly, and the handicapped.

Mr. DAUB. So you had a direct—I don't think that came out. I was listening and reading your testimony.

You know of their work from firsthand experience, not just from having observed it from afar.

Mr. DAMMANN. Yes, sir.

Mr. DAUB. Mr. Chairman, I have no further comments.

Before you adjourn, I do want to ask that one item earlier that we went through be included in the record. I am speaking of the letter of concern by the Invsco people with respect to their cameras not being able to record the third day, that that be included formally in the record.

Mr. ROSENTHAL. Without objection, it is so ordered.

[The letter referred to follows:]

1236

ARNOLD & PORTER

200 NEW HAMPSHIRE AVENUE, N. W.

WASHINGTON, D. C. 20036

202 878-8700

April 1, 1981

Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing on behalf of American Invsco Corporation to respectfully request that you reconsider your decision to preclude our client from videotaping the third day of condominium conversion hearings before your Subcommittee. As you know, a cameraman hired by American Invsco taped the first two days of the Subcommittee's hearings without incident and in strict conformity with the rules of this Committee and the House of Representatives. The witnesses the first day were essentially critical of condominium conversion. We see no justification for excluding our representative -- and only our representative -- from the final day of hearings, when the affirmative case is made, largely through our witnesses and through our satisfied purchasers.

This decision not only contravenes the applicable rules and a spirit of even handed treatment of the parties before this Subcommittee, but it also raises grave questions under the First Amendment.

American Invsco determined to videotape your Subcommittee's hearings so that it could have the full record of these important proceedings available for use

in contacts with its employees, tenant groups, prospective and actual purchasers, government officials, various civic, school or other groups and local radio and television stations, all of whom may have an interest in considering the public policy issues surrounding the condominium conversion process. (Beyond these important goals of public education, the tapes were also particularly useful in preparing our witnesses for the hearings.) Our client feels that educating the public on all sides of this issue is "indispensable to decisionmaking in a democracy." First National Bank of Boston v. Bellotti, 435 U.S. 765, 777 (1978).

Certainly, these three days of hearings on condominium conversions constitute, as you described in your opening statement, a most significant contribution to this important issue.

Our videotaping of these hearings also is fully consistent with the rules of this Committee and of the House of Representatives concerning video coverage of Committee hearings. Clause 3(a) of Rule XI of the Rules of the House of Representatives authorizes video coverage

"(1) for the education, enlightenment, and information of the general public, on the basis of accurate and impartial news coverage, regarding the operations, procedures, and practices of the House as a legislative and representative body and regarding the measures, public issues, and other matters before the House and its committees, the consideration thereof, and the action taken thereon; and

(2) for the development of the perspective and understanding of the general public with respect to the role and function of the House under the Constitution of the United States as an organ of the Federal Government."

Our coverage of these hearings is fully consistent with both of these purposes. As you are aware, the issues of condominium conversion are of no small importance to the public. American Invsco is entitled to ensure that its employees, other interested members of the general public, and local media have access to full and complete information concerning the issues before the Subcommittee. This is particularly important in the situation presented here where the first two days of hearing witnesses have focused so heavily on the issue of tenant displacement, with relatively little attention given to the many benefits of condominium conversion.

In our testimony today, American Invsco, through the testimony of its chairman, Nicholas S. Gouletas, and two expert witnesses, Dr. Andrew F. Brimmer, a prominent economist and former member of the Board of Governors of the Federal Reserve System, and the Honorable Thomas L. Ashley, former Congressman from Ohio and Chairman of the Subcommittee on Housing and Community Development, will address these important questions concerning housing policy and the economics of condominium conversion. We believe we should be allowed to record, for dissemination to the public, the full record of the views these gentlemen express before your Subcommittee.

Of course, American Invsco has and will continue to observe the rules of the House and this Committee concerning permissible uses of these materials. Clause 3(b) of Rule XI provides:

" . . . it is the intent of this clause that radio and television tapes and television film of any coverage under this clause shall not be used or made available for use, as partisan political campaign material to promote or oppose the candidacy of any person for elective public office."

American Invsco has asked us to assure this Subcommittee that it in no way intends to use its television tapes and film for such purposes.

House Rule XI (3) (c) further provides that television tapes and film shall not be used to "distort the objects and purposes of the hearings" or to "cast discredit or dishonor on the House, the committee, or any Member. . ." Once again, our client wishes to assure the Subcommittee that it has no intention of distorting the object and purposes of the hearing or casting discredit or dishonor on the House or any of its Members. Our client simply intends to provide interested members of the public with a full and comprehensive account of the proceedings.

In compliance with Rule XI (3) (f) (11), Mr. Robert Cirache, the cameraman providing video coverage of this hearing, is currently accredited to the Radio and Television Correspondents' Gallery of the House of Representatives.

In sum, American Invsco is in full compliance with the House Rules and there is no justification for denying American Invsco the opportunity to make a videotape of these Subcommittee's public hearings.

In any event, under Rule 17 of the Rules of the House Committee on Government Operations, the Subcommittee may, by majority vote, authorize such coverage subject to the Chairman's responsibility "to maintain an acceptable standard of dignity, propriety, and decorum". On Monday, March 30, 1981, the first day of these hearings, at least six cameras, including Mr. Cirache's, were present to record the events without any diminution in the appropriate standards of conduct set out in Committee Rule 17. Certainly, there is no basis for the Chairman to limit in any way our participation because it can in no way affect the dignity, propriety or decorum of these hearings.

Finally, Mr. Chairman, we urge you to reconsider your ruling in light of the policies inherent in the First Amendment. In particular, we call your attention to First National Bank of Boston v. Bellotti, 435 U.S. 765, 776-7 (1978), where the Supreme Court considered the constitutionality of a state statute prohibiting corporations from expending funds to publicize their views on a referendum respecting a change in state tax laws. The Court found that the prohibition was an unconstitutional abridgement of the full discussion of governmental affairs on the grounds that:

"The speech proposed by appellants is at the heart of the First Amendment's protection.

'The freedom of speech and of the press guaranteed by the Constitution embraces at the least the liberty to discuss publicly and truthfully all matters of public concern without previous restraint or fear of subsequent punishment. . . . Freedom of discussion, if it would fulfill its historic function in this nation, must embrace all issues about which information is needed or appropriate to enable the members of society to cope with the exigencies of their period.' Thornhill v. Alabama, 310 U.S. 88, 101-102 (1940).

The referendum issue that appellants wish to address falls squarely within this description.

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"If the speakers here were not corporations, no one would suggest that the State could silence their proposed speech. It is the type of speech indispensable to decisionmaking in a democracy, and this is no less true because the speech comes from a corporation rather than an individual.

The inherent worth of the speech in terms of its capacity for informing the public does not depend upon the identity of its source, whether corporation, association, union, or individual." (Emphasis supplied).

We believe that our client's desire to transcribe and disseminate an accurate record of Congressional proceedings is also "at the heart of the First Amendment's protection" and will provide "information [which] is needed to enable the members of society to cope with the exigencies of their period." And, as Bellotti holds, the fact that a corporation wishes to disseminate such information is irrelevant to the free speech values at the core of the First Amendment. It is the value of disseminating ideas which have "the capacity for informing the public," not the "identity of the source," which the First Amendment seeks to protect.

We of course will abide by the decision of the Subcommittee.

Respectfully,

  
James F. Fitzpatrick

  
Michael N. Sohn

cc: Members of the Subcommittee

Mr. DAUB. Thank you all very much.

Mr. ROSENTHAL. I want to thank you all. It has been very useful and very good of you to come. I appreciate your coming here this afternoon.

The subcommittee stands adjourned.

[Whereupon, at 5:05 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]





## APPENDIXES

### APPENDIX 1.—ADDITIONAL STATEMENTS AND LETTERS SUBMITTED FOR THE RECORD

#### STATE OF COLORADO

DIVISION OF SAVINGS AND LOAN  
Department of Regulatory Agencies  
201 E. Colfax Ave., Rm. 324  
Denver, Colorado 80203  
Phone (303) 839-2384  
David L. Paul  
Commissioner



Richard D. Lamm  
Governor

November 3, 1980

The Honorable Benjamin S. Rosenthal  
U.S. House of Representatives  
Rayburn House Office Building, Room B-377  
Washington, D.C. 20515

CONGRESSMAN BEN ROSENTHAL	
RECEIVED	
STAFF	DOC #
	REC #
NOV 6 1980	
PARA:	
COMMENTS:	
FILE CODE:	

Dear Representative Rosenthal:

This responds to your letter of October 22, 1980, regarding speculative purchases of condominiums or cooperative units. Colorado presently has no cooperative housing projects, but as you are probably aware, Colorado in general, and Denver in particular, has a very active and growing condominium market.

This Division has not adopted any rules, regulations or supervisory practices on the subject. There are no State laws concerning this matter, except for the recently-passed HB 1141 (copy enclosed) which provides for the creation and financing of cooperative projects. This law has been in effect too short a time to be evaluated as to its impact. Further, we have been unable to obtain any statistics as to the proportion of condominium financings for owner-occupants versus speculators.

However, our survey of state-chartered savings and loan associations (25% of the institutions, ranging in size from \$50 million to in excess of \$1 billion in total assets) revealed the following information:

50% currently were not making non-owner occupied condominium loans, and 50% of that group either will not or never has made condominium loans to either owner-occupants or speculators.

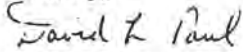
Interest rates ranged from 1% to 3% higher on non-owner occupied condominium loans, front-end fees ranged from 1/2% to 1 1/2% higher, and loan-to-value ratios ranged from 65% to 80%.

1244

It appears that Colorado state-chartered associations generally have taken a restrictive attitude toward non-owner occupied condominium loans. If the associations surveyed run short of lendable funds, the non-owner occupied loans are the first to be eliminated from current loan availability.

I trust this is responsive to your request. If you have questions, please feel free to contact me.

Sincerely,



David L. Paul  
Commissioner

DLP:mp  
Enclosure

1980



DIVISION OF SAVINGS &amp; LOAN

MAY 27 1980

RECEIVED

HOUSE BILL NO. 1141.

BY REPRESENTATIVES Trimble, Neale, Castro, Chavez, DeHerrera, Edmonds, Hastings, Hudson, Knox, Taylor, Witherspoon, Davoren, Lucero, Pena, and Showalter;  
also SENATORS Wham, Holme, Baca-Barragan, Beno, Gallagher, Groff, Kadlecak, Meiklejohn, Phelps, and D. Sandoval.

PROVIDING FOR THE FORMATION OF COOPERATIVE CORPORATIONS FOR THE ACQUISITION OF HOUSING FACILITIES FOR THE STOCKHOLDERS THEREOF.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Title 38, Colorado Revised Statutes 1973, as amended, is amended BY THE ADDITION OF A NEW ARTICLE to read:

#### ARTICLE 33.5

##### Cooperative Housing Corporations - Housing for Members

38-33.5-101. Method of formation - purpose. Cooperative housing corporations may be formed by any three or more adult residents of this state associating themselves to form a nonprofit corporation, pursuant to articles 20 to 29 of title 7, C.R.S. 1973. The specified purpose of such corporation shall be to provide each stockholder in said corporation with the right to occupy, for dwelling purposes, a house or an apartment in a building owned or leased by said corporation.

38-33.5-102. Requirements for articles of incorporation of cooperative housing corporations. (1) In addition to any other requirements for articles of incorporation imposed by articles 20 to 29 of title 7, C.R.S. 1973, such articles of incorporation shall, in the case of cooperative housing corporations, include the following provisions:

- (a) That the corporation shall have only one class of stock

Capital Letters indicate new material added to existing statutes; dashes through words indicate deletions from existing statutes and such material not part of act.

outstanding;

(b) That each stockholder is entitled, solely by reason of his ownership of stock in the corporation, to occupy, for dwelling purposes, a house or an apartment in a building owned or leased by the corporation;

(c) That the interest of each stockholder in the corporation shall be inseparable from and appurtenant to the right of occupancy, and shall be deemed an estate in real property for all purposes, and shall not be deemed personal property;

(d) That no stockholder is entitled to receive any distribution not out of earnings and profits of the corporation except on a complete or partial liquidation of the corporation.

38-33.5-103. Provisions relating to taxes, interest, and depreciation on corporate property. (1) The bylaws of a cooperative housing corporation shall provide that no less than eighty percent of the gross income of the corporation in any taxable year shall be derived from payments from tenant-stockholders. For the purposes of this article, "tenant-stockholder" means an individual who is a stockholder in the corporation and whose stock is fully paid when measured by his proportionate share of the value of the corporation's equity in the property.

(2) The bylaws shall further provide that each tenant-stockholder shall be credited with his proportionate payment of real estate taxes paid or incurred in any year on the buildings and other improvements owned or leased by the corporation in which the tenant-stockholder's living quarters are located, together with the land to which such improvements are appurtenant, and likewise with respect to interest paid or incurred by the corporation as well as depreciation on real and personal property which are proper deductions related to the said lands and improvements thereon for purposes of state and federal income taxation.

38-33.5-104. Financing of cooperative housing - stock certificates held by tenant-stockholders. Stock certificates or membership certificates issued by cooperative housing corporations to tenant-stockholders shall be valid securities for investment by both state banks and savings and loan associations, when the conditions imposed by sections 11-7-103 (6) and 11-41-119 (13), C.R.S. 1973, are met.

38-33.5-105. Provisions to be included in proprietary lease or right of tenancy issued by corporation. (1) Every stockholder of the corporation shall be entitled to receive from the corporation a proprietary lease or right of tenancy document which shall include the following provisions:

(a) That no sublease in excess of one year, amendment, or modification to such proprietary lease or right of tenancy in the property shall be permitted or created without the lender's prior written consent; and

(b) That the security for a loan against the tenant-stockholder's interest shall be in the nature of a real property security interest, and any default of such loan shall entitle the lender to treat such default in the same manner as a default of a loan secured by real property.

38-33.5-106. Exemption from securities laws. Any stock certificate or other evidence of membership issued by a cooperative housing corporation as an investment in its stock or capital to tenant-stockholders of such corporation is exempt from securities laws contained in article 51 of title 11, C.R.S. 1973.

SECTION 2. 11-7-103, Colorado Revised Statutes 1973, as amended, is amended BY THE ADDITION OF A NEW SUBSECTION to read:

11-7-103. Loans - real estate - security. (6) (a) A state bank may lend on the security of a first security interest on stock or a membership certificate issued to a tenant-stockholder by a cooperative housing corporation organized under article 33.5 of title 38, C.R.S. 1973, and as defined by section 216 of the United States "Internal Revenue Code of 1954", as amended, and the assignment by way of security of the borrower's interest in the proprietary lease or right of tenancy in property issued by such cooperative housing corporation, if all of the real property owned by such corporation is located within the state and if:

(I) The term of the loan does not exceed forty years, the loan is repayable in substantially equal installments, not less often than monthly, with payments commencing not later than sixty days from the date of the loan, and the amount does not exceed eighty percent of the market value of such certificates of stock or membership certificates; and

(II) The proprietary lease or right of tenancy in the property provides that no sublease in excess of one year, amendment, or modification to such proprietary lease or right of tenancy in the property shall be permitted or created without the prior written consent of the lender on the leased premises.

(b) The security for a loan against the tenant-stockholder's interest shall be in the nature of a real property security interest, and any default of such loan shall entitle the lender to treat such default in the same manner as a default of a loan secured by real property.

SECTION 3. 11-41-119, Colorado Revised Statutes 1973, as amended, is amended BY THE ADDITION OF A NEW SUBSECTION to read:

11-41-119. Loans to members and other loans. (13) An association may lend on the security of a first security interest on stock or a membership certificate issued to a tenant-stockholder or resident-member by a cooperative housing corporation organized under article 33.5 of title 38, C.R.S. 1973, and as defined by section 216 of the United States "Internal Revenue Code of 1954", as amended, and the assignment by way of security of the borrower's interest in the proprietary lease or right of tenancy in property covered by such cooperative housing corporation, if all of the real property owned by such corporation is located within the state and if such loan is made subject to the same limitations, restrictions, prohibitions, conditions, and provisions as are applicable in the case of federal savings and loan associations.

SECTION 4. 7-55-111 (1), Colorado Revised Statutes 1973, is amended to read:

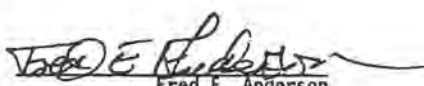
7-55-111. Use of the term "cooperative" - penalty for unlawful use. (1) No person, association, corporation, or organization, except as incorporated under articles 55 to 57 of this title, ARTICLE 33.5 OF TITLE 38, C.R.S. 1973, or a similar law of another state, shall use the word "cooperative" as a part of its business or corporate name, or as a trademark, brand, or designation.


SECTION 5. Effective date. This act shall take effect July 1, 1980.

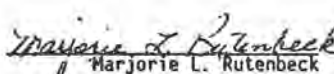
SECTION 6. Safety clause. The general assembly hereby

finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.

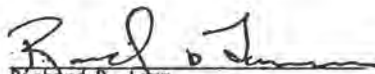
  
Robert F. Burford  
SPEAKER OF THE HOUSE  
OF REPRESENTATIVES

  
Fred E. Anderson  
PRESIDENT OF  
THE SENATE

  
Lorraine F. Lombardi  
CHIEF CLERK OF THE HOUSE  
OF REPRESENTATIVES

  
Marjorie L. Rutenbeck  
SECRETARY OF  
THE SENATE

APPROVED April 16, 1980 8:34 PM

  
Richard D. Lamm  
GOVERNOR OF THE STATE OF COLORADO



1250



JOHN J. COBLEY  
SECRETARY

STATE OF MARYLAND

JOSEPH R. CROUSE  
BANK COMMISSIONER

DEPARTMENT OF LICENSING AND REGULATION  
STATE BANK COMMISSIONER  
ONE NORTH CHARLES STREET, BALTIMORE, MARYLAND 21201  
301/938-4282

CHARLES R. GROSSER  
DEPUTY  
BANK COMMISSIONER

Honorable Benjamin S. Rosenthal  
Chairman  
Commerce, Consumer and Monetary  
Affairs Subcommittee of the  
Committee on Government Operations  
Rayburn House Office Building, Room 8-377  
Washington, D. C. - 20515

October 23, 1980	RECEIVED
FBI - BALTIMORE	
OCT 23 1980	
FILE	COMM-FBI

Dear Congressman Rosenthal:

This is in response to your letter of October 23, in which you request any rules concerning extensions of mortgage credit to speculator-investors. I assume you are requesting rules or regulations promulgated by an agency of this State.

There are no such regulations to my knowledge. Recently however, my office developed a set of guidelines for mortgage lending by State chartered credit unions, a copy of which is enclosed for your convenient reference. They are based upon regulations promulgated by the National Credit Union Administration. We have altered the Federal regulations somewhat, and intend to tailor the regulations to suit the needs of each particular credit union. Nevertheless, as you can see on Page 3 of the guidelines (Section II (a)(2)), credit unions are restricted to making loans to finance the acquisition of owner-occupied dwellings. This was done to ensure the soundness of the credit unions' mortgage loan portfolio. It may also have some effect on the general availability of mortgage money in Maryland, however.

I trust these comments will be helpful. If I may be of further assistance, please do not hesitate to call.

Sincerely,

*Joseph R. Crouse*  
Joseph R. Crouse  
Bank Commissioner

JRC:arg  
Enc.

CREDIT UNIONS

## GUIDELINES FOR REAL ESTATE LENDING

## I. DEFINITIONS

- a) "ONE-TO-FOUR FAMILY DWELLING" MEANS A STRUCTURE DESIGNED FOR RESIDENTIAL USE BY NOT MORE THAN FOUR FAMILIES. THE TERM ALSO INCLUDES A ONE-TO-FOUR FAMILY UNIT IN A PLANNED UNIT DEVELOPMENT OR CONDOMINIUM PROJECT WHERE CERTAIN PORTIONS OF THE SECURITY PROPERTY ARE OWNED IN COMMON WITH OTHERS. THE TERM DOES NOT INCLUDE A UNIT IN A COOPERATIVE PROJECT.
- b) "PRINCIPAL RESIDENCE" MEANS A STRUCTURE WHERE THE MEMBERS WILL BE DOMICILED OR WILL RESIDE PERMANENTLY WITHIN 6 MONTHS AFTER INITIAL DISBURSEMENT OF THE LOAN OR WITHIN 18 MONTHS PROVIDED THE STRUCTURE IS BEING NEWLY CONSTRUCTED OR EXTENSIVELY REHABILITATED.
- c) "VALUE" MEANS THE LOWER OF THE APPRAISED MARKET VALUE OR THE PURCHASE PRICE. IN THE CASE OF RESIDENTIAL REAL PROPERTY BEING REHABILITATED, "VALUE" SHALL ALSO INCLUDE THE COST OF REHABILITATION. THE COST OF REHABILITATION SHALL BE SUPPORTED BY A GOOD FAITH ESTIMATE.
- d) "APPRAISAL" MEANS AN OBJECTIVE ESTIMATE OF VALUE BASED UPON A PHYSICAL EXAMINATION AND EVALUATION WHICH SHALL DISCLOSE THE MARKET VALUE OF THE SECURITY OFFERED BY USE OF THE MARKET SALES APPROACH WHICH SHALL BE SUPPORTED BY AN ANALYSIS OF COMPARABLE PROPERTIES IN THE IMMEDIATE AREA. THE MARKET VALUE SHOULD ALSO BE SUPPORTED BY USE OF THE COST AND INCOME APPRAISAL METHODS IF CONDITIONS WARRANT.
- e) "APPRAISER" MEANS A PERSON WHO IS EXPERIENCED IN THE APPRAISAL OF DWELLINGS AND IS ACTIVELY ENGAGED IN SUCH APPRAISAL WORK AND WHOSE QUALIFICATIONS ARE DEMONSTRATED BY MEMBERSHIP IN A NATIONAL PROFESSIONAL APPRAISAL ORGANIZATION OR WHO IS LICENSED TO APPRAISE IN THE STATE IN WHICH THE REAL ESTATE IS LOCATED OR WHO IS ACCEPTABLE AS AN APPRAISER BY AN INSURING OR GUARANTEEING AGENCY OF THE FEDERAL OR STATE GOVERNMENT.

- r) "MARKET VALUE" MEANS THE HIGHEST PRICE WHICH REAL PROPERTY WILL BRING IN A COMPETITIVE AND OPEN MARKET UNDER ALL CONDITIONS REQUISITE TO A FAIR SALE, THE BUYER AND SELLER, EACH ACTING PRUDENTLY, KNOWLEDGEABLY, AND ASSUMING THE PRICE IS NOT AFFECTED BY UNDUE STIMULUS.
- g) "SECURITY INSTRUMENT" MEANS EITHER A DEED OF TRUST, MORTGAGE OR LEASEHOLD MORTGAGE WHICH CONSTITUTES A FIRST LIEN.
- h) "INSURED OR GUARANTEED LOAN" MEANS ANY LOAN THAT IS FULLY OR PARTIALLY INSURED OR GUARANTEED BY THE FEDERAL GOVERNMENT, STATE GOVERNMENT, OR ANY AGENCY OF EITHER.
- i) "ESCROW ACCOUNT" MEANS EITHER A SPECIAL LIMITED WITHDRAWAL SHARE ACCOUNT OR ACCOUNTS PAYABLE ACCOUNT FOR THE ACCUMULATION OF FUNDS TO PAY FOR NOT MORE THAN ONE YEAR'S TAXES, ASSESSMENTS, INSURANCE PREMIUMS, CONSTRUCTION PROCEEDS, OR OTHER CHARGES THAT COULD EFFECT THE CREDIT UNION'S LIEN POSITION.
- j) "TITLE INSURANCE" MEANS INSURANCE PROTECTING THE CREDIT UNION AGAINST LOSS DUE TO CLOUDS OR DEFECTS IN TITLE TO REAL PROPERTY EQUALING THE CURRENT PRINCIPAL BALANCE OF THE MORTGAGE LOAN ALSO PROTECTING AND BENEFITING SUBSEQUENT PURCHASERS OF THE MORTGAGE.
- k) "HAZARD INSURANCE" MEANS PROPERTY INSURANCE AFFORDING PROTECTION AGAINST LOSS OR DAMAGE FROM FIRE AND OTHER HAZARDS COVERED BY THE INDUSTRY'S STANDARD EXTENDED COVERAGE ENDORSEMENT WHICH PROVIDES FOR PAYMENT OF AN AMOUNT SUFFICIENT TO PAY THE MORTGAGE BALANCE IN THE EVENT OF A COVERED LOSS, WITH A STANDARD MORTGAGE CLAUSE IN FAVOR OF THE CREDIT UNION AND SUBSEQUENT PURCHASERS OF THE MORTGAGE.

## II. REQUIREMENTS

- a) THE CREDIT UNIONS MAY ORIGINATE LOANS SECURED BY FIRST LIENS ON RESIDENTIAL REAL PROPERTY WITH MATURITIES NOT EXCEEDING 30 YEARS WITHIN THE LIMITATIONS OF WRITTEN POLICIES ADOPTED BY THE BOARD OF DIRECTORS PROVIDED:

- (1) RATE OF INTEREST ON MORTGAGE LOANS SHALL BE IN COMPLIANCE WITH SECTION 6-506, FINANCIAL INSTITUTIONS ARTICLE OF THE MARYLAND CODE.
- (2) LOANS SHALL BE MADE TO FINANCE OR REFINANCE A DWELLING WHICH WILL BE USED FOR THE PRINCIPAL RESIDENCE OF THE CREDIT UNION MEMBER.
- (3) LOANS SHALL BE AMORTIZED BY SUBSTANTIALLY EQUAL MONTHLY INSTALLMENTS SUFFICIENT TO RETIRE THE LOAN AT MATURITY. EACH MONTHLY INSTALLMENT SHALL BE APPLIED FIRST TO TAXES AND INSURANCE DUE AND PAYABLE (WHEN AN ESCROW ACCOUNT IS ESTABLISHED) THEN TO INTEREST CURRENTLY DUE AND PAYABLE, WITH THE REMAINDER TO PRINCIPAL. AMORTIZATION SHALL COMMENCE NO LATER THAN 61 DAYS AFTER DISBURSEMENT OF PROCEEDS AND SHALL NOT EXCEED LOAN MATURITY FROM DATE OF DISBURSEMENT. AN INSURED OR GUARANTEED LOAN SHALL BE AMORTIZED AS PERMITTED BY THE INSURING OR GUARANTEEING AGENCY.
- (4) THE AGGREGATE DOLLAR AMOUNT OF REAL ESTATE LOANS OUTSTANDING MAY NOT EXCEED 10 PER CENTUM OF THE CREDIT UNION'S ASSETS WITHOUT PRIOR WRITTEN CONSENT OF THE STATE BANK COMMISSIONER, INCLUDING FIRST AND SECONDARY MORTGAGES.
- (5) THE LOAN SHALL NOT EXCEED 90 PER CENTUM OF VALUE AT THE TIME OF DISBURSEMENT EXCEPT THAT:
  - (i) AN INSURED OR GUARANTEED LOAN MAY EQUAL THE MAXIMUM AMOUNT ACCEPTABLE TO THE INSURING OR GUARANTEED AGENCY.
  - (ii) THE LOAN AMOUNT MAY EQUAL UP TO 95 PER CENTUM OF VALUE PROVIDED THAT PRIVATE MORTGAGE INSURANCE IS OBTAINED FOR THE AMOUNT OF THE LOAN IN EXCESS OF 90 PER CENTUM OF VALUE.
- (6) THE LOAN APPLICATIONS SHALL BE THE CURRENT REVISION OF FHLMC FORM 65 / FNMA FORM 1003 OR ITS EQUIVALENT. IN THE CASE OF AN INSURED OR GUARANTEED LOAN THE LOAN APPLICATION SHALL BE ACCEPTABLE TO THE INSURING OR GUARANTEEING AGENCY.
- (7) THE SECURITY INSTRUMENTS AND NOTES SHALL BE EXECUTED ON THE CURRENT REVISION OF THE FNMA/FHLMC UNIFORM INSTRUMENTS FOR THE JURISDICTION IN WHICH THE PROPERTY IS LOCATED. NO PREPAYMENT PENALTY SHALL BE

ALLOWED ON ANY REAL ESTATE LOAN. IN THE CASE OF AN INSURED OR GUARANTEED LOAN THESE INSTRUMENTS SHALL BE ACCEPTABLE TO THE INSURING OR GUARANTEEING AGENCY.

- (8) THE LOAN SHALL BE SECURED BY A PERFECTED FIRST LIEN ON REAL PROPERTY IN FAVOR OF THE CREDIT UNION SUPPORTED BY A PROPERLY EXECUTED AND RECORDED SECURITY INSTRUMENT. NO LOAN SHALL BE SECURED BY REAL PROPERTY LOCATED OUTSIDE THE UNITED STATES OF AMERICA, ITS TERRITORIES AND POSSESSIONS.
- (9) WHERE AN INTEREST IN REAL ESTATE IS CUSTOMARILY EVIDENCED BY LEASEHOLD OR GROUND RENT ESTATES, REAL ESTATE LOANS SHALL COMPLY WITH THE PRECEDING PROVISIONS OF THIS SECTION IN ADDITION TO THE PROCEDURES CUSTOMARILY FOLLOWED TO PERFECT AN INTEREST IN A LEASEHOLD OR GROUND RENT ESTATE. IN THE CASE OF AN INSURED OR GUARANTEED LOAN THE LEASEHOLD OR CONVEYANCE RESERVING GROUND RENTS SHALL COMPLY WITH THE REQUIREMENTS OF THE INSURING OR GUARANTEEING AGENCY.
- (10) A CREDIT UNION MAY REQUIRE THE MEMBER/BORROWER TO MAINTAIN AN ESCROW SHARE ACCOUNT. IF A MEMBER'S LOAN IS ASSUMED BY A NON-MEMBER, ANY REQUIRED ESCROW ACCOUNT SHALL BE MAINTAINED AS AN INTEREST BEARING ACCOUNT PAYABLE. THE RATE OF INTEREST PAID ON SUCH ACCOUNTS SHALL BE EQUAL TO THE DIVIDEND RATE PAID ON REGULAR SHARE ACCOUNTS.
- (11) EACH MORTGAGE LOAN FILE SHALL CONTAIN THE FOLLOWING:
  - (1) A LOAN APPLICATION SUPPORTED BY AN EXECUTED SALES CONTRACT AND ANY MODIFICATIONS BEARING THE SIGNATURE OF PRINCIPAL PARTIES TO THE TRANSACTION.
  - (11) A WRITTEN APPRAISAL PREPARED AND SIGNED PRIOR TO APPROVAL OF THE LOAN APPLICATION BY AN APPRAISER. IN THE CASE OF AN INSURED OR GUARANTEED LOAN, THE APPRAISAL FORM SHALL COMPLY WITH THE REQUIREMENTS OF THE INSURING OR GUARANTEEING AGENCY.
  - (111) WHEN APPLICABLE, A PRIVATE MORTGAGE INSURANCE CERTIFICATE OR DOCUMENTATION OF INSURED OR GUARANTEED LOANS.

- (iv) A COMPLETE SETTLEMENT STATEMENT (FORM HUD-1) DETAILING ALL CHARGES AND FEES AND DISTRIBUTION OF THE LOAN PROCEEDS.
- (v) AN OPINION OF TITLE SIGNED BY AN ATTORNEY LICENSED TO PRACTICE IN THE JURISDICTION IN WHICH THE PROPERTY IS LOCATED OR A TITLE INSURANCE POLICY AFFIRMING THE QUALITY AND THE POSITION OF THE FIRST LIEN.
- (vi) A CURRENT HAZARD INSURANCE POLICY.
- (vii) A FLOOD INSURANCE POLICY IS REQUIRED.
- (viii) A PROPERLY EXECUTED NOTE AND SECURITY INSTRUMENT AND A DOCUMENT INDICATING THE DATE AND PLACE(S) OF RECORDING OF SUCH INSTRUMENTS.
- (ix) TRUTH-IN-LENDING DISCLOSURE STATEMENT REFLECTING ALL DISBURSEMENTS.

### III. RESTRICTIONS

- a) THE FOLLOWING RESTRICTIONS SHALL BE APPLICABLE TO ALL LOANS MADE UNDER THESE GUIDELINES:
  - (1) A CREDIT UNION SHALL NOT GRANT ANY LOAN ON THE PRIOR CONDITION, AGREEMENT, OR UNDERSTANDING THAT THE BORROWER CONTRACT WITH ANY SPECIFIC PERSON OR ORGANIZATION FOR THE FOLLOWING:
    - (i) INSURANCE SERVICES (AS AN AGENT, BROKER, UNDERWRITER) EXCEPT INSURANCE OR A GUARANTEE PROVIDED BY A GOVERNMENT AGENCY.
    - (ii) BUILDING MATERIALS OR CONSTRUCTION SERVICES.
    - (iii) LEGAL SERVICES RENDERED TO THE BORROWER; AND
    - (iv) SERVICES OF A REAL ESTATE AGENT OR BROKER.
- b) NOTWITHSTANDING THE PRECEDING PARAGRAPH, A CREDIT UNION MAY REFUSE TO GRANT ANY LOAN IF IT BELIEVES, ON REASONABLE GROUNDS, THAT THE INSURANCE SERVICES PROVIDED BY THE PERSON OR ORGANIZATION SELECTED BY THE BORROWER WILL AFFORD INSUFFICIENT PROTECTION TO THE CREDIT UNION.

- c) A CREDIT UNION SHALL NOT MAKE ANY MORTGAGE LOAN IF, EITHER DIRECTLY OR INDIRECTLY, ANY COMMISSION, FEE OR OTHER COMPENSATION IS TO BE PAID TO, OR RECEIVED BY, ANY OF ITS OFFICIALS OR EMPLOYEES IN CONNECTION WITH THE PROCURING OR INSURING OF THE LOAN.
- d) EARLY REPAYMENT OF A LOAN INVOLVING POINTS OR FINANCE CHARGES SHALL REQUIRE RECOMPUTATION. A REFUND OR AN ADJUSTMENT OF THE FINAL PAYMENT MUST BE MADE PROMPTLY TO INSURE THAT THE TRUE RATE OF INTEREST HAS NOT EXCEEDED THE CONTRACTUAL RATE SET FORTH IN THE SECURITY INSTRUMENT OR NOTE. THIS REQUIREMENT ALSO APPLIES TO LOANS WHICH THE CREDIT UNION HAS SOLD IN WHOLE OR IN PART.
- e) IN COMPLIANCE WITH SECTION 6-504, FINANCIAL INSTITUTIONS ARTICLE OF THE MARYLAND CODE, THE TOTAL OF ALL LOANS MADE BY A CREDIT UNION DIRECTLY OR INDIRECTLY TO ANY ONE MEMBER MAY NOT EXCEED 10 PER CENTUM OF THE PAID-IN AND UNIMPAIRED CAPITAL AND SURPLUS OF THE CREDIT UNION.

1257



UNITED STATES DEPARTMENT OF COMMERCE  
International Trade Administration  
Washington, D.C. 20230

September 4, 1980

Mr. Ted Jacobs  
Committee on Government Operations  
Subcommittee on Commerce, Consumer,  
and Monetary Affairs  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Jacobs:

This is in response to your recent telephone request for information regarding the extent of foreign investment in the U.S. condominium market during the six month period, January to June, 1980.

In the first six months of 1980, OFIUS identified 20 investments in the U.S. condominium market, with a reported value of over \$460 million. This figure includes both development of new condominium units and conversion of existing rental properties to condominium units. OFIUS does not monitor foreign investments in private residences, including purchases of individual condominium units, thus, the identified investments are for condominium projects in their entirety.

During the first six months, Canada was the source of 10 of the 20 identified investments, with a reported value of \$258.2 million, followed by the Netherlands Antilles with 5 valued at \$12.7 million, and Venezuela with 3 valued at \$79.8 million. West Germany and the Philippines had one each valued at \$7.2 and \$12.0 million respectively.

Florida is the preferred state for condominium investment, with a reported value of \$227.2 million for 13 of the 20 transactions. Two identified conversion projects in the Washington, D.C. area reported a combined value of \$78 million. Of the remainder, three investments were





1258

in California with a reported value of \$37 million, a \$100 million condominium construction project is underway in Texas, and one investment was made in Vermont with no value reported.

OFIUS identified 10 additional investments in apartment buildings, with a reported value of \$52.1 million. Although the publicly available sources did not state that these were investments made with the intent to convert to condominiums, they could be converted in the future.

I hope this information is useful to you.

Sincerely,



Richard A. Apar, Director  
Investment Analysis Division  
Office of Foreign Investment  
in the United States

1259



MORTGAGE INSURANCE COMPANIES OF AMERICA  
1725 K STREET, N. W., SUITE 1402 - WASHINGTON, D. C. 20006-1202 765-0767



STEVEN P. COEHLER  
DIRECTOR OF RESEARCH AND ECONOMICS

March 31, 1981

The Honorable Benjamin S. Rosenthal, Chairman  
Subcommittee on Commerce, Consumer and  
Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, DC 20515

Dear Mr. Chairman:

The Mortgage Insurance Companies of America (MICA) is pleased to contribute to the Subcommittee investigation into condominium and cooperative housing. The inquiry is timely in that recent trends in housing finance show condominiums account for an increasing percentage of all housing starts and, we believe, more American families are seeking, and will continue to seek, condominiums as they attempt to deal with the general problem of affording homeownership. Many first time homebuyers, for example, have found prices of detached homes in some markets make a purchase financially impossible. Condominium units can be attractive alternatives that contain many of the benefits of ownership over rental; the tax shelter and an inflationary hedge are two examples of benefits. These same benefits have been fueling the consumer's interest in conversion from rental to condominium.

Because a major goal of the mortgage insurance industry is to help the homebuyer solve the affordability problem, the trend toward condominium ownership has meant mortgage insurance companies (MICs) have been insuring more condominium loans. As a percentage of all loans insured, however, this number is still very small.

It is important to understand the role of a mortgage insurer in the home financing process. Mortgage insurance is a financial guaranty that

\*As was explained in an earlier submission to the Subcommittee (November 17, 1980), MICs insure virtually no coop loans. The legal questions surrounding the insurance on loans representing this form of ownership of real estate security have not been resolved at this time in the majority of states.

AMERICAN MORTGAGE INSURANCE COMPANY ; COMMERCIAL CREDIT MORTGAGE INSURANCE CO. ; COMMONWEALTH MORTGAGE ASSURANCE COMPANY ; FOREMOST GUARANTY CORPORATION ; HOME GUARANTY INSURANCE CORPORATION ; INSUR MORTGAGE INSURANCE COMPANY ; INTERSTATE MORTGAGE GUARANTY CORPORATION ; MORTGAGE GUARANTY INSURANCE CORPORATION ; PMI MORTGAGE INSURANCE CO. ; REPUBLIC MORTGAGE INSURANCE COMPANY ; TFCM MORTGAGE ASSURANCE COMPANY ; TOWN INVESTORS MORTGAGE INSURANCE COMPANY ; THE MORTGAGE INSURANCE COMPANY OF CANADA ; UNITED GUARANTY CORPORATION ; VEREX ASSURANCE INC.

is purchased by the lender to protect himself against a default by the borrower of the loan. The premium charged the lender is typically passed through to the borrower. The purpose of insurance is to substitute for borrower equity in high ratio loans. When a borrower cannot afford to make a downpayment of, typically, 20 percent or more on the loan, the lender will, as a condition for making a high ratio loan, require his additional risk be covered by an insurance policy. There are many families with good incomes, but for one reason or another have not been able to save enough for the substantial downpayments needed to buy a home today. Private mortgage insurance is of direct benefit to these borrowers, whether seeking a detached home or a condominium unit.

We understand a major point of inquiry by the Subcommittee focuses upon the purchaser of a condominium. We share the Subcommittee's concern that the condominium form of ownership not be subject to abuse by developers or investor/speculators to the detriment of those families who wish to own and occupy. We also recognize the Subcommittee's concern that the conversion process can place hardships upon certain families occupying rental units, such as retirees, for whom ownership is not practical or even possible. These are serious problems that we believe the Subcommittee should address.

While we will be happy to provide any information the industry can obtain, it should be noted that our knowledge in this area is limited. Our direct experience based upon the insurers role deals only with the lender and not with the condo purchaser seeking financing. Therefore, our primary attention involves the insurance risk presented by the lender when applying for insurance on a loan. Risk for our perspective is increased when loans are made to individuals that do not occupy their condo units. Estimates suggest that defaults can occur on such properties as much as four times more often than on loans where the borrower makes it his residence. In response to this risk, most insurers insure such loans within more conservative underwriting criteria. Investors buying condo loans in the secondary market confirm this risk evaluation, typically requiring a premium for non-owner occupied condo loans. There is a wide body of opinion which believes that it is obvious a owner living in his home will do more to avoid foreclosure than will an investor/speculator. To a large extent, the market forces we operate under discourage insuring loans of borrowers who do not occupy.

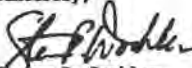
MICA is an industry association that believes the meeting of our nation's housing needs should depend as much as possible upon market forces and we believe it would create more harm than good if the Subcommittee were to attempt to foster new laws or regulations which could impact upon the ability of some families to buy homes through the condominium form of ownership. There is nothing inherently wrong with the ownership form. On the other hand, this support for the free market concept must recognize the apparent inequity in a process that in some cases provides a windfall for a developer and creates hardships for some individuals that some developers totally disregard.

The windfall from the conversion process is often viewed as a direct result of a government policy in the tax structure favoring developers and individuals owning a home. Because a current owner of a multifamily rental building is often able through depreciation and other write-offs to make a substantial return on his equity, a sale to a developer will be realistic if greater revenue can be derived from such a sale over what can be earned by continuing to hold the property. The rationale for the conversion process is a simple equation. The differences between the market values and the investment values to current owner of properties can become substantial due to a large appreciation of the price of housing. Thus, a developer can acquire a building by providing a substantial incentive to induce the owner to sell and yet leave himself plenty of profit after the individual condominium units are sold. Tenants of the rental property have foregone their opportunity to share in this inflation derived profit by opting to rent rather than own in years gone by.

Perhaps the Subcommittee, in evaluating the windfalls to developers and the true nature of hardship cases especially for fixed income families, could suggest guidelines for developers to follow in defining and dealing with hardships. In some cases, there are, no doubt, public spirited developers who utilize some of their profits and are already following guidelines to mitigate specific hardships. In other cases, perhaps the government's big stick is the only answer. Greed is not a free market force; it is a free market abuse, but it is a fact.

We would be happy to assist the Subcommittee in any additional way that would be possible. We appreciate this request to participate.

Sincerely,

  
Steven P. Doehler  
Staff Vice President

SPO:ks

1262

STATEMENT OF  
MARCELLA P. GIBERMAN

I have for many years been a tenant at the Grosvenor Park Garden Apartments. At the time of its conversion to a condominium by American Invasco I was offered a 2-year lease by the developer's representative, Mr. David Kaplan; my lease expires October 31, 1981. Until May 1980 I paid my rent to the condominium; at that time ownership was transferred to Victor D'Agnese (and two others with the same surname, one of whom has the middle name "Guletta"), to whom I make out my checks and mail them c/o Ms. Claudia Dunbar, 120 S. LaSalle Street, Chicago, Illinois. My lease, executed 3 days after I suffered a shoulder fracture, requires that I be responsible for the total rent for the 2 years, with a 10% increase the second year over that of the first.

On March 10, 1981, because of a problem in my apartment for which Mr. Anthony Elrod, Willowick Management's onsite manager for the Grosvenor Park condos converted by American Invasco, has to me disclaimed any interest in or responsibility for, I phoned Montgomery County's Environmental Protection Department (EPD). I did so on the recommendation of Mr. Roy Smith, Office of Landlord-Tenant Affairs (OLTA). I described my problem to a Ms. Whelan, who agreed to send someone to explore it. Because I told her that even my softest words seemed inexplicably to be heard in the apartment below mine, she suggested that I prepare a typed description of my problem for the person she sent. In response to my question, Ms. Whelan told me that should access to the apartment below mine (which seemed to me involved in my problem) be resisted, he would obtain a subpoena.

I have for months been plagued in my home day and night by a variety of fumes, all unpleasant, some--like that resembling the stench of smoldering garbage--disgusting. In a relatively short time, some of the chemicals in these fumes began to cause painful physical problems. Problems caused by odorless elements also began to appear, like what I call "bamboo needles" in my throat that make me cough deeply and severely, leaving my throat and lungs raw, my voice hoarse. Similarly, I have had very sharp, piercing, stinging sensations in my ears. These events, along with the endlessly repeated, noisy water spurts, squeaks, blasts, and runs at all hours of the day and night, have deprived me of many, many hours of sleep.

Tragically, my repeated exposure to the fumes over a long period of time has sensitized me to certain chemicals in them. As a result, I perceive them far more intensely than do those who perceive them for the first time. It is my sensitization that also causes me to suffer such painful physical responses. To my sorrow, I suffer the same responses when I encounter them outside my home. Additionally I have had a persistent dermatitis that does not respond to treatment and worsens when certain fumes are intense.

On March 11, the day after I talked with Ms. Whelan, a Mr. Noyes of EPD came to my apartment, picked up the brief description I'd typed, and after barely looking at it, started to walk out with it. I protested. I had prepared it for his guidance in his immediate inspection, which Ms. Whelan had told me would be his procedure. Also, I'd made no copy for myself. But Mr. Noyes insisted, promising to have a copy made and return the original to me. I felt

uneasily obliged to accede to his request. The inference I got was that if I wanted any help from him, I'd better--no matter his request deviated from the course I'd been told he would take. Also, because I had told him that I had talked with the County Health Department, though at night, and had gotten an uncooperative response, he said he would call them, adding, "Ah, this will be different." To my knowledge, at least, he didn't talk with them at all.

Either by obnoxious, pain-inducing fumes or by water run any way it can be, I am deprived of so much sleep that I must catch up when I can or suffer debilitating exhaustion. [The time I am awakened has fairly consistently been 4 a.m., though the morning of this writing it was 2 a.m. This was once followed by a telephone call telling me with jeering laughter not to be "so noisy"; the caller then quickly hung up. I'd given up trying to get back to sleep and while reading the previous day's newspaper, had been drumming my fingers lightly on my cardtable.] Early the day Mr. Moyes returned--March 13--I'd been able to fall asleep again, and when he knocked at my door, I was awake but still abed. I asked him to wait a moment while I threw some clothes on; instead he went elsewhere.

As soon as he got back, he virtually shouted at me, suggestively, repeatedly, that some people, "y'know, can, y'know, imagine all kinds of things, y'know," and that I needed to "talk" to someone. I was shocked, and utterly enraged. When I asked whom he'd been talking to, he snapped, "never mind," as though it were none of my business. Then, with evangelical fervor, he exhorted me to put-my-faith-in-the-Lord-and-in-Jesus-Christ-who-died-to-save-us-all, after which he continued as if from a pulpit to persuade me to the credo of the born-again Christian. Mr. Moyes is not a minister. Amazed at his performance and style, I'd inquired; I found it remarkable that he seemed to be trying to proselytize me on government time. When he started to tell me about his conversion experience, I interrupted to inform him that I am Jewish. After a pause, during which he studied me carefully, he urged me not to let that worry me and proceeded to cite the Old Testament. He knew it well.

Mr. Moyes admonished me to stop wearing masks (the polyfoam dust masks I wear almost 'round the clock) and to open my windows wide "and let God's fresh air in." I'd informed him that the fumes sometimes enter my apartment via one or the other of my two windows. This occurs when the fumes are emitted to the outdoors from either of the windows below mine and my furnace blower is running, thus drawing them into my home. When they're being emitted from the window below my dining room window and my blower is not running, they can be perceived on my balcony. One of our OLTA commissioners confirmed this observation.

Clearly Mr. Moyes had readily been convinced that I am crazy, by whom I don't know, but I doubt it was someone qualified to make such a diagnosis. As a result he was deterred from making any effort to pursue my problem. This in itself was enough for me to decide it would be a waste of my time to attempt any discussion with him at all. Interestingly, with no further verbal exchange between us, Mr. Moyes said, "I know I could lose my job for this." He left, and just as with his first visit, within moments after he drove off, I was intensely blasted with stinking fumes. I was reminded of my initial feeling at the time of the condominium conversion: I was being squeezed out of my home.

According to Mr. Noyes, whoever told him I was crazy also graciously allowed as I could stay until my lease expires. Since these sickening fumes were held to be products of my imagination, there was no need, of course, for him to be assured that they would be stopped. And they haven't been.

An effort to label me crazy was made earlier, just as I was beginning to formulate some notion of what was happening and who was involved. Awakened as usual by intense foul stenches and in an agony of pain I had come to know was deliberately imposed, I hurled an empty stationery box onto my bedroom floor. A neighbor came to my door with a young man who purported to be both a Grosvenor Park guard and a police officer. I apologized and tried to explain; by that time the fumes had dissipated. Two full weeks later, after midnight and soon after I answered a ringing phone with no one at the other end, my phone rang again. The young woman who had come to my door with the purported guard-policeman wanted to call on me. What for? To talk about the noise I'd made those 2 weeks before. I asked if the "guard" had, as he'd promised, made a thorough inspection of the building. No. I said then nay, upon which they took turns threatening first to have me "locked up" and next to have me "put away." And they wanted to take me to Suburban Hospital for examination--mental, no doubt. I managed to contain myself and informed them I have my own doctor and that I would not permit their entry at any time without my lawyer's prior approval. They feebly ended with the threat that they'd have the condominium invite me to leave. Nothing resembling this incident ever happened to me again, but some weeks later, shortly after I'd dozed off, the neighbor I believe involved in my harassment violently banged on her bedroom walls and then just as violently hurled objects around the room. Everything in my own bedroom was shaking as I sat in my bed quaking with terror. What she was threatened with I don't know.

Stinkpots seem to be non-objects in the local bureaucracy. When I toss out the term to test the waters, I get "what's that?" either in tones of wide-eyed wonder or with a derisive snort. Take it from a victim: These are not "mere" nuisances. Their contents are synthetic compounds of chemicals devised to mimic familiar odors, most of which might prompt an S.O.S. to the Fire Department, as I did late one night on the urgent instruction of my N.M.O. doctor on call. Later, on reflecting the events of that evening, I was incensed to realize I'd been manipulated by deliberate, viciously imposed pain into calling out an entire complement of fire trucks and personnel. What a waste of a life-or-death resource!

Those outside the bureaucracy are more willing to call a pot a pot, especially scientists who have been called upon to deal with stinkpots and their problems. A mere description of the stenches I've perceived and the physical responses I've suffered has been enough to identify them for those in the know.

Sensitization would make believers out of those who underrate stinkpots. I am not amused by the severe headaches I suffer; by dizziness so extreme I must hang on to my walls en route to an open window, where, with luck, I might get a few breaths of "God's fresh air" before stinkpot fumes get to it; by vomiting until I bring up blood; by coughing until my throat and lungs feel raw and I cough up blood; by suffering pain and swelling of my esophagus so severe that swallowing is difficult; by feeling that a hole is being drilled in my stomach and seeing a huge swollen bulge in my body where my stomach is.

As time goes on, my physical reactions occur more readily, more severely, and in an ever broadening range of environments. Can anyone say how much permanent damage has been done me, or to what degree these vicious assaults may affect my health in the future? My life span? I have claudication: The arteries in my thighs are partially blocked. As a result the muscles in my lower legs are not getting an adequate supply of oxygen, which causes excruciating pain. I can hardly believe that the poisons I inhale day and night do me any good. Indeed, the pains have worsened of late. I made the claudication condition known when I applied for the 2-year lease. No one forced them to give it to me. I have months to go before the expiration of my lease. And Mr. Noyes and his informant notwithstanding, I am still being harassed daily--and nightly.

No one in Willowick Management, which is an arm of American Invesco, has ever approached me with the request that I leave. My daughter, however, phoned me from Detroit, Michigan, virtually in panic to tell me that Mr. Elrod had called her at her place of work to tell her he was going to have me evicted because I'd "made noise." He was referring to the tragicomic event of an evening that was followed by some relief for me, though briefly.

I was exhausted and in intense pain directly caused by the fumes running at that time. Knowing that every sound I uttered was heard in the apartment below, I'd called out that I'd notified the police and they were coming--I knew not when. This triggered an immediate frenzy of activity in that apartment. The distinctive sound of my neighbor's kitchen stool as it was dragged from place to place could be clearly heard, and I, at least, could hear an enormous number of objects being pulled down from what sounded like the periphery of every room virtually at my own apartment floor level, some from under my kitchen sink. (Under my sink always a favored spot for the emissions, what with food and dishes, etc., located there; I could always count on them while I ate, too). In the meantime water could be heard running hard into the bathtub and kitchen sink (perhaps the bathroom sink too), and floating objects could be heard gently bumping against each other. I surmise that the water was hot, because the intensely stinking vapors that arose seemed to permeate every inch of my apartment, and, I suspect, seeped into other areas of the building as well. Bad enough, but when I knew the vent in the window airconditioning unit below my bedroom window was being used to emit some of the fumes outdoors, I roared with indignation and demanded that they stop contaminating the community environment; the vent was slammed shut at once. The cleanup job not yet completed, it was resumed the next day or two, presumably to reach places higher than those accessible with the kitchen stool; I could hear them in the walls, and especially in the soffit just under my kitchen sink. Afterwards I enjoyed a few days of relative freedom from the sickening emissions before they were resumed at a gradually increasing pace and intensity to their previous level--that is, all day and most of the night.

And this is what I'd made noise about.

My experience with Mr. Noyes could not go unreported. It is especially significant in view of my having first been told by OLTA that it has no provision for dealing with condominium problems. The reason? "Condos are too new."



1266

I have it on good authority that stinkpots are not uncommonly used to "encourage" tenants to move before expiration of their leases. I am not in a firm position to say who, other than my neighbor and her cohort, may be responsible for arranging and maintaining what I have come to call my gas chamber, my Auschwitz. I remember that when American Invasco descended on the Grosvenor Park, it was preceded by a most unsavory reputation. But the word was that it was eager to change its image. Therefore, one of the things it was going to do in order to be transformed in the public eye as the guys in the white hats was offer 2-year leases to the elderly financially unable to buy and the medically disabled. I fit into the second category and turned out to be "borderline." Claudication is the result of atherosclerosis, in itself common among the aging. Therefore, the argument was, since we begin to have atherosclerosis from the time we're born (Mr. Kaplan said his doctor told him), what's so special? I responded that if it's all that common, how come he never heard of claudication? I passed. Had I known that stinkpots came with the lease I'd have run the other way. At the least, I would like to have had a choice: a 2-year lease with, or a 2-year lease without. And now, in this congressional investigation as in "60 Minutes" last Sunday, we're hearing again about the largesse of American Invasco's 2-year lease. That 2-year lease has become highly suspect to me. I haven't canvassed the Garden Apartments to inquire whether any tenants (there are quite a few tenants in condominiums) have suffered "bad smells" that drove them into moving out. My guess is that the stinkpot gimmick would be harder to work in a highrise building than in a garden apartment building, but I don't really know, my own experience being limited to this one instance.

Like many others, I've heard and read about the great social good and the great social evil of conversion. One of the reasons I wanted to rent first was to test condominium living. Having tested it, I am adamantly against condominiums and even more adamantly against cooperatives. But this is not the theme of this document. I cry out that attention must be paid (my apologies to Arthur Miller) to those who now live in limbo--like me. My friends tell me, "Move! Enough suffering." I'd rather fight, though my attorneys tell me it's expensive--why bother. I will not move. And I will bother. If only to spare one more person from an experience like mine. Please listen--and do something.



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April 1, 1981

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Testimony Given March 30, 1981 Before  
Commerce, Consumer, and Monetary Affairs Subcommittee  
of the Committee on Government Operations  
House of Representatives  
Congress of the United States

By Laura B. Monroe, Esq., Staff Attorney

My name is Laura B. Monroe. I live at 306 Columbus Avenue in Boston, Massachusetts. I am employed as a staff attorney at Greater Boston Elderly Legal Services. In my professional capacity, I represent elderly low-income clients from all parts of Boston on a wide-range of civil matters. The bulk of my caseload, however, consists of housing cases.

I chose to put most of my efforts in that direction when I began to notice several years ago that more and more of our clients were being displaced from their homes of many years and from the only neighborhood they had ever known, to make room for luxury condominiums.

Thus, I have had the opportunity to observe first hand the impact of condominium conversion on older Americans living on fixed incomes. In one word, it is devastating.

The following are some stories of the effect of this phenomenon on a few older people who worked hard all their lives and are now trying to live on their social security pensions.

Jane Doe is 70 years old. Until her retirement, she worked

as a maid at a local hotel. Her total income consists of her monthly social security check of \$325. She has no savings. She had lived in the same South End rooming house for the last 18 years, paying \$140 for her room there.

On the wave of condo fever, her building was bought by a corporation, which immediately began eviction proceedings for purposes of condominium conversion. Up to that time, Miss Doe had lived a quiet, orderly life, somehow managing to get by on her meager income, bolstered by the familiarity of her surroundings and her roots in the community.

The eviction notice and the events that followed made a shambles of her life. The new owners in their haste to vacate the building so as to proceed with remodeling, harassed her continuously. They threatened momentary demolition; they repeatedly failed to provide heat; and the frail woman was forced to spend daylight hours shivering in her bed. Although the Housing Court issued orders to the new landlord to provide heat, to repair gross code violations and to desist from harassing her, new tortures were invented monthly. The woman began to live in constant dread, her arthritis worsened, she contracted chronic bronchitis.

Whenever she was strong enough, she haunted the offices of the Boston Housing Authority, trying to get into an Elderly Housing Project not too far from her old neighborhood. The waiting lists for these Projects are enormously long. One time, when I checked with BHA to see where my client stood on the list,

the official told me that the list of highest priority emergencies was very long. He added: "You know, the only way the tenants leave this place is feet first. Your client will just have to wait until enough tenants die to get her turn."

A social worker from South End Settlements spent eight months trying to find housing for Miss Doe, while I fought to keep her in her building. In that period of time, a cheerful, optimistic, bright eyed bird of a woman turned into a frightened, sick, often despairing person, given to frequent crying jags, often expressing the wish that she "could die and get it over with."

Jane Doe finally moved into an elderly housing project, where she has "a room in the back, looking out at a wall." She told me that it is a grim and depressing room and that she was right to dread moving there. The only thing she had dreaded even more was staying in her old building, suffering the continuing and ever new harassment techniques invented by the landlord, eager to begin conversion construction.

Another elderly tenant in the same building, Mary Roe, who lives on her social security disability check of \$320, moved out two months after she received her Notice to Quit in spite of my assurances that she did not have to move for a long time. Her disability was connected with a nervous condition, and she found that she was getting far more disturbed after the eviction attempts began. She has just been displaced

four months earlier from a neighboring building also purchased by someone from outside the area for purposes of condominium conversion. I ran into her recently on the street. Mary asked for my card because she thought she was about to be evicted again, and had run out of ideas about where to go.

Henry Jones is a decorated veteran of World War II. He is 67 years old. For the last four years, he had lived in a vacancy-decontrolled room in a rooming house. His rent was increased by \$100 a month. He couldn't pay and was evicted. For weeks, he slept in the lobbies of various institutions such as Mass. General Hospital and Morville House, an elderly housing project, and spent his days trying to find a place in Boston where he could afford to pay the rent. I lost contact with him and do not know what became of him.

Mary Smith is 63 years old. She had been living in a rooming house in the South End for the last four years. She lives on social security disability. She had worked as a maid at the YWCA until she became disabled by a heart condition and severe emphysema.

Miss Smith's building was bought by an outsider for purposes of condominium conversion. In an effort to get the tenants out quickly, one of the new owners first tried to frighten everyone out immediately. When Miss Smith sought legal representation and discovered that she need not panic and could take time to find a new place, the landlord stopped oil deliveries. When the court ordered him to provide heat, he turned off fuses so that the contents of Miss Smith's refrigerator spoiled. When he was

restrained from this harassment, he broke the lock on the front door of the building. He was ordered to repair the lock; his attorneys promised in writing that he would do so. They also promised he would provide lights in the common areas. Months later, an intruder entered the building through the still unsecured door and mugged Miss Smith. She phoned the police and went downstairs to meet them. In the total darkness of the stairs, she tripped and fell down 14 wooden steps to the entrance hallway.

She was taken to the hospital, her entire body covered with ugly bruises and her head injured from the mugging. She returned home on crutches. She was moved to the top of the priority list for elderly housing. A social worker and I worked incessantly to find shelter for her away from the nightmare that her home had become.

The owner kicked in the door of another apartment directly beneath Miss Smith and allowed the garbage to be dumped there. Mary Smith's apartment became overrun with rodents. She became so frightened that she barricaded herself in her room and refused to let me go to Court for injunctive relief.

Miss Smith's physician wrote letters to the Boston Housing Authority stating that her health was rapidly deteriorating because of her housing situation. Nothing became available for many months.

Mary Smith had been a competent, cheerful, self-sufficient rational person before the "investors" had bought her building. By the time a Section 8 subsidized apartment was found for her

through a lucky fluke, she had become a profoundly deepressed, hysterical person who often spoke of her terror and despair and her wish to die.

We are told that 80% of the elderly poor in need of legal help never find their way to Legal Services. The aforementioned case histories are those of older Americans who started out strong enough and self-confident enough to seek out legal help. How many others are there like "The Little Man on Dartmouth Street", and what happens to them in a city with a less than 2% vacancy rate?

The Little Man on Dartmouth Street was a neighborhood fixture for so many years that no one can remember his not being there. He was odd looking and totally harmless. He lived in a rooming house and would sit on the front stoop on clement days, sunning himself. Everyone in the neighborhood knew him and talked to him, including myself. One day, I passed in front of the man's building. He was standing in the middle of the sidewalk, crying. I asked him what was wrong. He said they'd bought his building and he had to get out and he had no place to go. I told him that I would like to help and gave him my card. He said he would manage by himself. An hour later, I came by again. The man was still standing there crying. I talked to him again. He said he would call. He never did. He disappeared. No one knows where he went or what happened to him. His building has been converted to luxury condominiums which are being sold for \$100,000 per floor.

An Ordinance passed last year by Boston City Council has improved the situation to some degree in that it has given the elderly at least two years to try to find other safe, affordable housing (which in all probability does not exist). Unfortunately, the owners of buildings about to be converted use conversion construction, remodeling, and the showing of apartments to a stream of potential buyers as ways of pressuring the elderly to flee. Only the strongest elderly tenants find it possible to remain under those circumstances. The fear and anxiety evoked by the landlord's tactics take an enormous toll on these tenants. When added to their constant awareness that it is only a matter of time before they will be displaced from their home and community, many live in utter despair.

I want to make very clear that the fact that I have talked only about the effect of condo conversion on the elderly simply reflects the client population which I serve.

I do not want to leave you with the impression that the hardships endured by low and moderate income families who are displaced with no place to go are less severe. I assume that others who testify today will tell you those terrible stories.

On behalf of my clients, and myself as tenant, I urge this Committee to support enactment of national legislation which would provide maximum protection to tenants and would help conserve what is left of the rapidly dwindling rental housing stock in many of our cities.



STATEMENT OF JAMES L. CHERRY  
President, The National Center  
for Handicapped Rights, Incorporated

Mr. Chairman and Members of the Subcommittee on  
Commerce, Consumer and Monetary Affairs:

The National Center for Handicapped Rights, Incorporated welcomes this opportunity to comment on the efforts of American Invsco to accommodate disabled and older residents within their projects. I am James Cherry, President of the National Center, and I regret that I am unable to be present today, but I want to relate my views to the Committee about the positive activities initiated by American Invsco in various projects to meet the needs of disabled and older residents.

The National Center for Handicapped Rights is an advocacy organization comprised largely of disabled consumers. The activities of the National Center range from research of timely issues to providing information to legislators on the state and local level. Our efforts in the recent past have led to the enactment of laws to provide access at voting polls by disabled citizens, to prevent employment discrimination against disabled citizens, to provide parking permits for use in handicapped parking spaces, and to require barrier-free design in new

construction. During the past year, we initiated an ad hoc housing committee to begin gathering information on the problems faced by disabled persons in housing.

Shortly after our fact-finding began on housing-related matters, we were asked to participate as a member of the Community Advisory Council sponsored by American Invsco and we accepted. This was the only time our organization has ever been contacted by a private developer to share ideas about how to enhance the lifestyle of disabled residents on a voluntary basis.

The Community Advisory Council meeting has served as the forum where ideas have been exchanged and a sensitivity developed to the circumstances and needs of older and disabled citizens. In response to the Community Advisory Council recommendation, American Invsco has voluntarily initiated several significant activities which are designed to enhance the quality of life for older and disabled citizens in their project.

With our organization as a consulting factor, American Invsco at great expense has developed in their property at 333 Meyer West in Kansas City, Missouri, a prototype apartment using all of the barrier-free design

features and is now working in preparing a brochure with these features presented in it. The Consumer Relations Department of American Invsco was charged with the responsibility to present this as an added service of their ongoing commitment and concern to their residents.

We have also embarked under my direction on a training program with the Consumer Relations Department of American Invsco to sensitize the personnel within that Department to the attitudes and needs of the disabled and older residents. We have found that able-bodied persons often find it difficult to communicate with disabled persons concerning the difficulties presented by their disability. This training program will enable the Invsco personnel to relate to the disabled and older residents in a manner which preserves the dignity of these residents.

It is my firm belief that we tend to stereotype the older and handicapped citizens by putting them in an institutionalized setting and here we see private industry concerned with advancing and enhancing the lifestyle of this most important segment of our population. The efforts of American Invsco will serve as the lead in breaking down these unwarranted stereotypes within the community.

As a continuation of efforts of American Invsco to create an independent living environment for all citizens, they have undertaken the voluntary responsibility at their new development at Denver, Colorado known as the Barclay to provide a percentage of the newly constructed units which are barrier-free and usable by older and disabled citizens.

I anticipate that the lead taken by American Invsco will be followed by other business leaders, and we look forward to continuing our participation with other private business in conjunction with our continued activities with American Invsco.

James L. Cherry, J.D., Ph.D.  
President  
The National Center for Handi-  
capped Rights, Incorporated

1278

Statement on Speculation and  
Condominium Conversion  
by  
Michael Kavanaugh

Prepared for the  
Committee, Consumer and Monetary Affairs  
U.S. House of Representatives Subcommittee

by  
Public Interest Economics Center  
1525 New Hampshire Avenue, N.W.  
Washington, D. C. 20036

March 31, 1981

My name is Michael Kavanaugh. I am the senior economist at the Public Interest Economics Center, a non-partisan, not-for-profit corporation dedicated to advancing the interests of the public at large, particularly those groups and individuals who are seldom represented effectively in public decision-making. I am here today to talk about speculation in real estate markets in general and, in particular, of one form of speculation, namely, the conversion of apartments into condominiums.

Shortly after receiving my doctorate in economics I had occasion to study real estate speculation and its effects in the City of San Francisco. In the course of conducting that study, my associates and I were compelled to develop research strategies, operational definitions and realistic and informed discussion of policy options. Today, I intend to draw upon that experience in discussing real estate speculation and condominium conversions.

At the outset I want to emphasize that the manifestations of the problems and concerns caused by speculation and condominium conversions are local. That is, the profitability of speculation and conversions varies from city to city. This results in the incidence of condominium conversion and its attendant problems varying from locale to locale. Although the manifestations of the problem are local, at least some of the causes of the problem can be traced to federal policies, particularly tax policies and specifically the deductibility of interest payments and property taxes from taxable income and more importantly, the ability to avoid paying capital gains taxes on the proceeds from the sale of a condominium so long as another is purchased. No other investment instrument is so privileged. These policies increase the profitability of conversion and thereby exacerbate its problems.

The plan of the remainder of this statement is as follows:

- o To provide some details on the mechanisms that give rise to the problems caused by speculation—these problems include high housing costs, rising property taxes, neighborhood instability, high insurance costs, increased probability of loan defaults if the real estate "bubble" breaks and in general, a distortion of the market signalling process that results, ultimately, in the construction of the wrong-sized housing in the wrong places at prices that are beyond the ability to pay of the average American.
- o To suggest some definitions and research strategies for assessing the dimensions of the above problems.

#### A. Background

Speculation in real estate markets is often considered a factor in high housing costs, rising property taxes, neighborhood instability and a contributing element to an emerging housing crisis throughout many cities in the United States. This crisis is characterized by a condition in which the traditional single family dwelling is no longer within the financial reach of the middle class. In addition, a multitude of established neighborhoods are undergoing change imposed by outside forces.

A special form of speculation occurs when rental apartment units are purchased, converted to condominiums and then sold. This form of speculation does nothing to increase the supply of housing; but the mere change in status from apartment to condominium qualifies the new owner for considerable federal tax benefits and often displaces the long-term residents of a community. Moreover, conversions may distort the market signalling process and thereby decrease the efficiency with which resources are allocated.

The classical theory of speculation has been developed in the context of basic commodities such as wheat, corn, coconut oil and the like. These commodities are subject to rapid changes in supply and demand. For example, a typhoon in the Philippines can cause a two-fold increase in the price of coconut oil, or an out-of-season California rain storm can send the price of raisins spiraling. In markets like coconuts and raisins, speculation can play an economically constructive and important role by smoothing out price fluctuations.

In the context of the housing market, it is not clear that speculation plays a constructive role. To begin with, a house or building is an asset with a lifetime that may extend 40 years or more. Adjustments in the housing supply occur slowly. For example, we found the rate of net new construction in San Francisco is less than one per day while the number of deeds recorded is 100 a day. By contrast, 70 million bushels of corn are sold daily. Hence, the ratio of transactions to existing stocks in the housing market is substantially smaller than that which characterized the more volatile commodity markets. Because the housing stock increases slowly, if there is an increase of buyers--due to, say, increases in the rate of household formation or favorable tax treatment of real estate investment--the prices at which current transactions are concluded will be increased and it will raise expectations in future periods. Since sellers usually respond slowly in becoming aware of the new distribution of prices, opportunities are created for speculators to enter the market and earn above normal rates of return on investment. Their entry further raises the demand for housing and creates more upward pressure on housing prices. This is destabilizing, and it exacerbates price fluctuations.



### B. Rationale for a Public Role

While real estate generally is not a public good, increasing amounts of speculative transfers do have external effects. All external effects have two properties: interdependence--one person's behavior creates a cost to another--and lack of compensation--the one who creates the cost is not made to pay for it. In an ordinary market transaction, the purchaser pays the full cost of the item and expects full and sole claim to its use. Where there are external effects, the purchaser does not pay the full cost. Some of the cost of speculative transactions and condominium conversions are imposed on others in the form of neighborhood instability, rising property taxes, higher insurance costs and increased financing terms. In a market based economy, the distortion of the market signalling process by speculators is a public concern.

Let us look at the affected groups. For homeowners the speculative component of housing demand plays a role in increasing appraisal value and in turn, property taxes. Builders often use past sales as an indicator of future sales. Speculation misleads builders and may result in construction of the wrong price range or locations. In San Francisco, for example, 40.3 percent of new construction has been for studios and one-bedroom apartments. This has occurred in the midst of cries of outrage by community and political leaders for more family housing.

The housing market financial intermediaries--banks, savings and loans, real estate companies, insurance offices, the public sector--also receive false signals because of speculators. Banks and savings and loans are confronted with an unusually high and artificial demand from speculation for housing and respond by increasing required down payments and raising interest rates. In

early 1977, the Federal Home Loan Bank (FHLB) of San Francisco issued a bulletin warning financial institutions to encourage efforts to curb lending to non-resident buyers.

The real cost of housing is not simply the purchase price, but includes debt service costs which may treble housing costs over time. When principle and interest costs are summed, they are discounted to present value by the interest rate to the current market value of the house. The problem with respect to older housing stock and apartments and especially those sold at speculatively high prices, is that it is possible for the mortgage value to exceed the market value at some point in the life of the payback period. This is because the house or apartment unit may not have a useful life over the mortgage term. Neighborhood effects may lower the fair market value of the house over time. A house or condominium bought from a speculator in a marginal neighborhood may not catch on as a fashionable place to live: the unit then depreciates in value rather than appreciating--this jeopardizes mortgage security.

Speculators, typically operate in marginal neighborhoods that are expected to change for the better. The buyer basically makes a gamble as to which way the neighborhood will tip. Even if the neighborhood does become popular, the result is not entirely beneficial.

First, the equity of the process of replacing low income residents with high income residents is questionable and the subject of much political debate.

The consequences for the higher income population are not entirely positive. If they bought in a speculative market, they undoubtedly overpaid. Speculation drives up all prices in the short-run, but in the longer run prices may drop once the market has responded with new housing. The higher purchase price under the speculative pressures of course has continuing downstream effects

for households in the form of mortgage costs. In the extreme, speculatively priced housing may fall below its market value, tending to jeopardize mortgage security.

Low and moderate income earners constitute a segment of the population most vulnerable to the external effects of real estate speculation: their neighborhoods are precisely the areas in which speculators can buy property cheaply. But these are the people least likely to withstand rent and property tax increases. Moderate income earners, then, are not party to the transaction between landlord and converter, but are often displaced by conversion.

Real estate and insurance companies must cope with high turnover, attendant social instability and poor neighborhood reputations. In consequence, insurance premiums rise and brokers experience difficulties in placing family-oriented buyers.

The problem is not that the price system does not work—it works with marvelous efficiency. The signals it sends out, however, indicate that speculative transactions are costless. Thousands of people adjust their behavior to engage in this falsely inexpensive activity. A realistic solution to the problem of external effects can be achieved by either a system of taxes or the removal of tax advantages that will raise the price (reduce the profits) of conversions.

Removal of the speculative component from the housing market would serve to clarify and make more accurate the market signalling process. Removing the speculative component will contribute towards a market environment that will facilitate other housing reforms and policies, such as guidelines for condominium conversions, low interest inner-city rehabilitation loans and publicly aided new construction.

### C. Summary

The argument is that condominium conversions in particular, and real estate speculation in general, imposes costs on parties that are not part of the transaction. Some of these third parties are publicly insured agencies, others are large groups of diffusely represented people. Because there are these third party effects, public intervention is justified. Further, one of the reasons conversion is profitable—other than not having to pay all the costs of the activity—is the favorable tax treatment afforded to converters by federal tax policy. Accordingly, effective policy could proceed along two fronts, at the local level, "turn-over taxes" could be enacted to discourage the rapid buying and selling of real estate. At the federal level, favorable tax treatment of condominium and real estate in general should be amended.

At this point, I would like to suggest that those public officials that have access to fairly detailed real estate transactions data, data on turnover, price appreciation, income statistics and demographics financing terms and the like, undertake to determine the extent of speculative activity and condominium conversions. This research would indicate the cities where such activity is most acute and would specifically indicate any risks this activity constitutes to federally insured mortgages and lending institutions. Additionally, if it is determined that "something should be done about condominium conversions," I would suggest the federal officials do two things. First, modify the favorable tax treatment of real estate transaction now afforded in federal tax policies. Second, support local attempts to deal with the problems caused by this favorable tax treatment. This would include technical as well as political support.

1286

CONDOMINIUM DEVELOPERS ASSOCIATION

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3

Dear Mr. Jacobs:

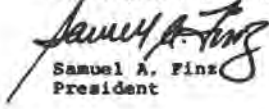
Our group, the Condominium Developers Association, now three years old, stands for quality condominium and cooperative development and conversion. Our organization is comprised of 17 member-developers who are actively engaged in condominium and cooperative conversion or development in Northern Virginia and other areas within metropolitan Washington. The goals of our members include providing quality condominium and cooperative housing for the benefit of our purchasers. Our organization is committed to self-policing in order to assure that its members engage in good business practices and produce a quality product. A key objective is to take into account the public interest as it may be affected by our members' activities.

We would very much appreciate the opportunity, if still possible, to speak before the subcommittee on Commerce, Consumer and Monetary Affairs at the hearings currently being held. We feel that the total experience of our members in converting and constructing condominium and cooperative units should be weighed on the subcommittee's evaluation of the issue.

If however, speaking at this late date is impossible we would ask that the attached statement be read into the record for consideration by the Subcommittee.

Sincerely yours,

CONDOMINIUM DEVELOPERS ASSOCIATION

  
Samuel A. Fink  
President

Attachment:

- A. CDA Brochure
- B. Statement with documents

- 1. Parkfairfax Story
- 2. Parc East Condominium Annual Report
- 3. Belle View - Brochure to the Residents

1700 N. Moore Street, Suite 1900, Rosslyn, Va. 22209

558-7300

STATEMENT BY GIUSEPPE CECCHI  
PRESIDENT OF INTERNATIONAL DEVELOPERS, INC.  
MEMBER OF CONDOMINIUM DEVELOPERS ASSOCIATION  
as Submitted to Subcommittee on  
Commerce, Consumer and Monetary affairs

So much has been said recently about the impact of condominium conversions on tenants. Most of that which is being printed however, points to the negative affects. Very little highlights the positive aspects.

For example, on the positive side, condominium conversions provide a far less expensive alternative to the cost of newly constructed single-family and townhouse housing. Additionally, conversions provide the opportunity for tenants to become owners and to share in the equity of real estate that will appreciate over time. Condominium conversions generate a considerable windfall in tax revenue to localities above the real estate tax revenue collected from properties held as rentals. Furthermore, condominium conversions assure the revitalization of communities that often fall into dis-repairs, deterioration and abandonment.

In the years to come the condominium form of home ownership will continue to take the place of lower priced single family homes in Northern Virginia. From what can be seen in today's housing market, condominium ownership will represent an increasingly attractive form of housing. The grouping of dwelling units into buildings, makes it less expensive to build compared to single family houses. There are comparable economies in the operation and maintenance of multi-family buildings. And, then there are several other cost savings resulting from the possibility of concentrating large number of residences in the proximity of public transportation systems, and other facilities available to the public.

Fifteen years ago there wasn't a single condominium unit in the Washington Metropolitan Area. Today one of every three units sold are condominium. This phenomena is indicative of the trend in condominium form of ownership. The cost of inflation and builder

financing have driven the cost of housing to levels far above what many can afford. Condominium conversion clearly is one means of producing lower cost housing to meet the demands of groups of people currently not able to afford to own other types of housing.

The reasons why the price of converted units is far below the price of newly constructed units, are many. Generally, the major portion of the cost of a converted unit was expended 10, 20, or 30 years ago when the property was first developed and the unit built. The conversion normally involves restoration and various soft costs like financing and marketing, which keep increasing with inflation, but the bulk of the cost still remains fixed. Furthermore, value of the existing improvements is closely related to the current rent levels and to the net cash flow. In the case of older projects, the physical plant is often deteriorated to the point where substantial investment in major replacements is required. Such investments are rarely justified by the rental cash flow.

Starting from the relatively low cost of the existing units, the developer has the choice of the degree and level of restoration to be performed, which in turn determines the sales price of the finished product offered on the market. If the sales prices are kept down to moderate levels, the restored unit can be purchased by the majority of the tenants residing in the converted project. Conversely if the amount of restoration drives the sales price to high levels, the majority of the existing tenants will probably not be able to buy and the conversion will cause mass relocation with all the related problems, specially for the elderly living on limited incomes.

The choice on the type of restoration and conversion program rests with the developer. While all projects are different and require different planning, the tenant-oriented program implemented by most members of Condominium Developers Association, can be applied to the majority of moderate rental projects.

Examples of tenant oriented conversions are Parkfairfax in Alexandria, Virginia, Parc East in Alexandria, Virginia and Belle

View in Fairfax County, Virginia.

Parkfairfax consists of approximately 1680 townhouse and garden type dwelling units on 132 acres built in the early 1940's by the Metropolitan Life Insurance Company. Parc East is a 283 unit highrise building directly adjacent to Parkfairfax.

In both projects we recognized the potential problems in addressing the needs of large numbers of tenants and attempted to plan our renovation and sales programs to meet those needs. I believe that we have successfully achieved this goal. It is for that reason that I believe a brief review of the conversions that have happened without the need of eviction or displacement of existing tenants.

At the time we acquired the property, we found two completely different situations: Parkfairfax a 35 year old project poorly maintained and rapidly deteriorating; Parc East a 7 year old project in good status of maintenance and repair.

At Parkfairfax, it was clear that the modest cash flow generated by the rental operation could not by far justify or pay for the substantial cost of the most needed restoration which was estimated to exceed the \$10,000,000 figure. Conversion to condominium was the only way to save Parkfairfax from complete deterioration that would have resulted in the displacement of 1680 families, several of whom were elderly and living on fixed incomes.

In developing the program for the revitalization and conversion of Parkfairfax we set forth two basic goals:

- to offer a privately-financed solution to the need for housing priced in the mid 30's, and

- to offer moderate-income tenants the opportunity to become homeowners for a net yearly cost comparable to the prevailing street rent.



The achievement of those goals was made possible by the development and the implementation of a program consistent with the special characteristics of Parkfairfax. Because the buildings were originally soundly constructed and had been subsequently modernized, our program limited to a minimum the restoration work inside the units.

Conversely, substantial money was spent in the restoration of the exterior common elements, the replacement and repair of the basic utility systems, and the creation of new adequate recreation facilities.

At Parc East, the same two goals were achieved more easily since very little restoration was necessary due to the young age and relatively good condition of the building.

Further economies were realized in both projects by renovating the units while they were occupied. The cost of renovating each unit was, in part underwritten by the continuing flow of rental income.

From a human relations standpoint this method of renovation was a virtual necessity. Many citizens of Parkfairfax and also of Parc East are elderly and have lived in the community for one to three decades. Even temporary displacement might have worked a severe emotional and financial hardship on these residents.

The marketing program for both projects was articulated as follows:

1. offer to the existing tenants the opportunity to buy the unit presently occupied by them or another vacant unit of their choice at a price substantially lower than the established price list for the general public. The discounts were structured to allow tenants to become homeowners for an actual yearly cost close to the current street rent for the unit they occupy.
2. offer to the existing tenants the opportunity to continue to lease if they are not interested in buying but wish to continue living in the project. Long-term leases with terms up to five years were made available at current street rent fixed for the full term of the lease, except for the standard condominium pass-through clause for real estate tax and condominium assessment increases.

3. offer to the general public all the remaining units not selected by existing tenants at the established public prices.

Parkfairfax and Parc East are now fully sold and settled. The residents of both projects have elected their own Board of Directors to govern their respective communities.

Out of the units that were occupied at the time the official notices of conversion were given section by section, 72% have been purchased or leased by existing tenants.

Nobody was evicted. The few tenants who moved did so of their own volition since they elected not to buy nor to continue to rent. We proved that a properly done conversion from rental to condominium can be a blessing for all parties involved.

Most of all, the residents of Parkfairfax and Parc East profited by having been given the opportunity to purchase their homes or lease them on a longterm basis, without having to vacate. In addition, all residents at the time of conversion recieved discounts of from \$3,000 to \$12,000 which, due to the proven marketability of the units at and above the public price, was equivalent to instant appreciation of their investment.

Belle View is a 979 unit garden type project. The restoration and marketing programs at Belle View are substantially similar to those implemented at Parkfairfax, except that at Belle View in order to make sales prices affordable to the existing tenants the discounts had to be substantially greater: They range from \$6,500 to \$15,000.

In addition to the standard discounts and long-term leases offered to all qualified tenants, several special programs have been offered to specific individuals designed to meet the special needs of elderly residents and of tenants living on limited fixed income.

At Belle View, residents 65 years old or older are entitled to an

additional \$3,000 discount on top of the regular tenant discount or a \$60 a month rent rebate if they choose a long-term lease.

These are just a few of the projects that have previously been converted or are currently underway in the Washington Metropolitan Area. There are obviously many more. But, the important thing to note is that they are tenant-oriented conversions; conversions which make every attempt to provide tenants the opportunity to remain in a community either as owners or as renters.

If successful members will convert projects in accordance with the guidelines and therefore, self-police the industry for the benefit of all.

I hope you will consider the material attached to this statement in a positive light. Each document describes the tenant-oriented programs implemented at each project. International Developers, Inc., and Condominium Developers Association stand ready to provide additional information as necessary to the Subcommittee in any way possible.

Attachments:

Parkfairfax Story  
 Parc East Condominium Annual Report  
 Belle View - Brochure to the Residents

STATEMENT OF MARILYN MERKEN

Marilyn Merken does state:

1. I currently reside at 906 Ninth Street, Apartment 8, Santa Monica, California.

2. I am 49 years old. My occupation is a data entry clerk and I earn approximately \$ 900 per month.

3. In December, 1979, I was evicted pursuant to court order from my former apartment located at 1220 California Avenue, Santa Monica, California. The purpose of my eviction was to facilitate a planned condominium conversion.

4. My monthly rent at 1220 California Avenue was \$ 331.50, and I had occupied the apartment for three and one half years. The building consisted of 14 apartments. The tenants were comprised of low and moderate income persons, and included both the elderly and one family with children. All of the tenants were evicted from the building because none of them could afford to purchase their units.

5. Prior to the eviction, the tenants were regularly harassed by the landlords and their agents. Of particular concern was the major renovation work that went on in the vacant units while people were still living in other units. They even attempted to knock out walls in apartments that tenants were living in.

6. It was very difficult for me to find another apartment that I could afford. Fortunately, with the assistance

of my parents, I was able to find another apartment close to my friends and family. However, a number of the other tenants who were evicted were not so lucky. For example, the family with a child, who was handicapped and in a very good special education program in the City of Santa Monica, could not find housing in the area and was required to take their child out of the program.

7. My experience has made me a strong opponent of condominium conversions. Conversions cause substantial hardship to existing tenants and do not provide any new housing.

Executed on March 6, 1981, at Los Angeles, California.

I declare under penalty of perjury that the foregoing is true.

  
MARILYN MERKEN

STATEMENT OF DAVID AND DOROTHY MERKEN

David and Dorothy Merken do state:

1. We currently reside at 832 Euclid Street, Apartment 204, Santa Monica, California.

2. Our currently monthly rent is \$ 442.72.

3. We are each 76 years old.

4. Our total monthly income, from both social security and earnings from our limited savings is \$ 1000.00 per month.

5. The building that we currently reside in is a 20 unit apartment building. The average rent in the building is \$ 400 per month, and most of the tenants are persons of low and moderate income, including a number of elderly tenants.

6. We have resided in the apartment for 6 years.

7. Our landlord is in the process of converting this building to condominiums. Although the City of Santa Monica has recently adopted strong anti-conversion legislation, the applicability of this legislation to our building is less than certain because the owner obtained preliminary conversion approvals before the date of adoption of the new legislation.

8. In the City of Santa Monica, the average price of apartments converted to condominiums has been well in excess of \$ 100,000 for ordinary buildings like the one in which we reside. (Luxury apartment conversions in the City of Santa

Monica have commanded much higher prices.) However, most of the conversions have taken place in small buildings, which are primarily occupied by low and moderate income persons and which are at affordable rent levels.

9. If our building is converted to condominiums, we would not be able to afford the purchase of our unit. We take pride in our apartment--its our home. At our age, we just don't believe that we can withstand moving, attempting to duplicate the years of work that go into making a place feel like home.

Executed on March 6, 1981, at Los Angeles, California.

We declare under penalty of perjury that the foregoing is true and correct.

David Merken  
DAVID MERKEN

Dorothy Merken  
DOROTHY MERKEN

1297

BEN WEINSTEIN

ADJUSTER FOR THE ASSURED

January 2, 1981

LICENSED BY  
INSURANCE DEPARTMENT  
COMMONWEALTH OF PENNSYLVANIA

639 BUILDING  
CITY LINE & BELMONT AVENUES  
BALA CYNWYD, PA. 19004  
TELEPHONE: 215-667-7050

The Honorable Benjamin S. Rosenthal  
U. S. House of Representatives  
Post Office Building, Room 207  
41-65 Main Street  
Flushing, NY 11351

Dear Congressman Rosenthal:

Rather than an oral presentation, the following written observations might be more digestible at a quiet moment.

I am a firm believer in the profit system but am also aware that the Congress of the United States does have the right and obligation, and precedent, by regulation and law to limit profits.

The following notes and observations are presented from the personal perspective and observation of an individual, who at various times in the last year and an half has worn many hats, as:

- a. A tenant before the condo developer bought 191.
- b. As a tenant after American Invesco bought 191.
- c. As a prospective buyer.
- d. As a non-buyer.
- e. As a Vice-President of the Tenants Association, which was formed after the appearance of Invesco and who took an active part in that association, and,
- f. As a member of a select three-man negotiation committee that met with high-level Invesco people.

C  
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P  
Y



It would appear that Invesco purchased this building without any money--using only letters of credit and payment of interest thereon--certainly an ideal financial deal. It would further appear that their purchase price stood at approximately eighteen and one-half million dollars and the resale price structure would have produced a gross income of some thirty-five million dollars while Invesco would have remained the proprietor of all the commercial space. Incidentally the previous owner had purchased the building approximately two and an half years prior to its sale to Invesco for approximately eleven million dollars. The sale price therefore escalated from eleven and one-half million dollars to thirty-five million dollars within two years.

Purchase of my apartment, figuring the cost of my money at fifteen percent, based on a tentative budget and with no consideration for necessary capital expenditures, would have increased my annual cost by some three-fold; and of course the same would have applied to all of the apartments.

There is reason to believe that "sweetheart deals" were available to insiders (sales staff, Invesco executives, etc.) which might serve two purposes:

a. Capital gains would be realized rather than ordinary income and,

b. The sale to insiders, so created, with deposits of one thousand dollars, would further induce trauma and panic-buying by tenants.

During separate conversation with Richard Blue and Frank Beidekamp, the economic value of Invesco was questioned; the writer stating that institutions that serve no economic value cannot last. I was informed that one of the "values" of Invesco and its operation was that the "social integrity" of the building would be preserved. Further questioning as to a definition of "social integrity," elicited the response, "Well, you know what we mean."

The trauma, fears and panic-buying were notably manifest. As Vice-President of the Tenants Association, I can report many calls from attorneys, children of tenants, etc., etc., from all over the country as to what was happening. Please

note that some of these people had lived in the building for as long as seventeen years, many were in their sixties and seventies and while affluent, still lived on fixed incomes which were rapidly dissipating because of the inflationary spiral.

All of us felt that the arrogance as evidenced by the sales staff and the marketing people; coupled with the inability to get to top brass; coupled with any show of compromise;—made us feel as though we were doing business—WITH A GUN AT OUR HEAD.

Late in the ball game, the three members of the negotiating team, myself included, did discover that because of two lawsuits, we had Invsco "over a barrel," and could have kept them there for approximately two years at a serious financial cost to Invsco. After much serious soul-searching thought and consideration, we did however recommend to the Tenants Association, "in consideration of some slight concessions," that we withdraw our lawsuits. We did not feel that we could or should, in all good conscience, keep our neighbors and friends "on the hook" for two years in view of the trauma and fear that we encountered on a daily basis. To this day, I am aware that this was not a good business judgment and if I had been acting only for myself, probably would have gone in a completely opposite direction—but, PEOPLE, THEIR LIVES AND THEIR HOMES WERE INVOLVED.

Should you or your staff care to contact me on a more personal basis and be privy to my file and some of the notes that were kept on an on-going basis, please be assured of my cooperation.

Thanks for your attention.

Very truly yours,

Sam Weinstein

EW:ae

Apt. 20-8  
6301 Sheridan  
Chicago, Illinois 60660  
August 27, 1980

Mr Benjamin Rosenthal, Chairman  
Commerce, Consumer, & Monetary Affairs Subcommittee  
House Government Operations Committee  
Washington, D.C.

Dear Mr. Rosenthal:

Enclosed is an article from the Chicago Tribune (08-22-80); this article contains the news of the probe into condo conversions. May I remark that, having lived through this building's conversion, I have come to the conclusion that legislation needs many changes to properly treat this now more frequent form of property ownership.

May I trouble you to continue reading for personal observations regarding the possibility of the "incredible inflationary impact." In Spring, 1977, we rented this apartment for \$427<sup>00</sup>/mo. (\$385, plus \$42. parking). In 1978, the one-man owner converted the building. Incidentally, he sold it to his family, who then "hired" them back as the cond's managing agent, for a two-year contract, at fifty-thousand dollars per year. Our down payment was 20% of the purchase price of \$51,300. (This was the list price reduced by 10% to current tenants). Today, with our first & newly-issued property tax bill, along with recent increases in garage rent & assessment charges for common areas, this same apartment costs us \$710<sup>00</sup> per month (with an increase of

assessment charges anticipated for 1982. This increase amounts to 84%.

To help fuel the "incredible inflationary impact," the taxing units have jumped in to take advantage of an obviously lucrative situation. We bought this apartment, anticipating a tax bill of \$1026. We bought because, one, most other buildings had been or were soon to be converted; and, two, renting offered only the certainty of skyrocketing rates. We virtually had no reasonable alternatives! Our tax bill arrived the other day, to the grand total of \$1457.<sup>14</sup> In two years our taxes have increased 43%. The developer surely profited. Now the taxing units are taking a portion. Which creature preys upon the vulnerable? Today I feel like its prey.

A specific feature of our condo conversions is the way the garage was handled. When the owner/developer set up the conversion, he kept the garage and laundry room as his property. These areas are known to be profitable. However, he sold the commissary as common area; the commissary has been profitable. The tenants' association did try to bargain for the inclusion of the garage in the conversion. However, their lack of success will haunt us. We have no control over the safety, cleanliness, security, or fees charged in the garage or laundry room. Further, the value of our apartment is affected. In the consideration of a highrise condo purchase, one must add the cost of parking. Whereas, owning a garage space allows the purchaser

to amortize the cost of parking.

To the point, condos that come out of conversions ought to be sold as a ONE, not reserving of prime places by the developer. Any area integral to life in a building should be included in common area for purchase by unit owners.

These matters are near and dear to my mind and heart. May my observations merit your recognition and attention. Looking forward to reading more about the probe of American Invsco, I am,

Very respectfully yours,  
Carol P. Shraiberg  
(Mrs. R.E.)

CONGRESSMAN BEN ROSENTHAL	
RECEIVED	
DATE	DEC 8
BY	RS 8
SEP 5 1980	
FBI NEW YORK	

1303

LEGAL AID FOUNDATION OF LOS ANGELES

318 SOUTH LINCOLN BOULEVARD • VENICE, CALIFORNIA 90291 • (213) 870-4872

March 13, 1981

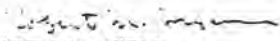
IN REPLY PLEASE REFER TO:

Mr. Ted Jacobs  
Commerce, Consumer and  
Monetary Affairs Subcommittee  
377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Jacobs:

Please find enclosed an additional statement on the adverse impact of condominium conversions. This statement is from the Fair Housing for Children Coalition. If I can be of further assistance to you, please do not hesitate to contact this office.

Sincerely yours,

  
ROBERT M. MIERS  
Attorney at Law

RMM:sm  
enclosures

cc: David Madway



STATEMENT OF FAIR HOUSING FOR CHILDREN COALITION

Dora Ashford does state:

1. I am the Executive Director of the Fair Housing for Children Coalition and have worked in the area of housing discrimination against families with children for the past five years. In this capacity, I have seen the devastation that conversions wreak on low and moderate income renters, especially families with children.

2. As an example, in 1978 our Coalition was involved in an effort to stop the wholesale eviction of hundreds of renter families in Culver City, California. Approximately 90% of the families were Black; most could not afford to purchase the \$ 60,000 condos which previously rented for \$ 330 a month. Most families could not find housing in Culver City because the vacancy rate was below 1%. They were uprooted and their children had to leave their friends and schools. Racial discrimination was suspected when it was discovered that even those Black families who wanted to buy were given different financial information than White families. After the conversion, the majority of residents were White.

STREET: 225 SANTA MONICA BLVD. #304 SANTA MONICA CA 90401  
P.O. BOX 5877 SANTA MONICA CA 90405 (213) 393-1093

3. Another example of how extensively conversions reduce housing opportunities was compiled by the Tara Village Tenants Association, Tarzana, California. Their survey of their community showed that over 1,000 apartment conversions in process. That's 1,000 lost apartments in just one small area of the County of Los Angeles. The Tenants Association has been fighting the conversion because over 85% of the tenants would be unable to purchase their units.

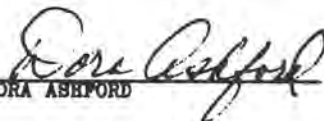
4. One final example of the difficulties encountered by victims of condominium conversions is from the City of Carson, California. The city established a special project to relocate 153 families displaced by a condominium conversion. (The families could not afford to purchase the \$ 60,000 condos.) With professional help from housing experts and several thousand dollars each in relocation funds from the converter, it still took over 10 months to relocate these families--and many did not find comparable units.

5. It is a myth that conversions help tenants to achieve the dream of home ownership. Conversions are a nightmare for most tenants and result in massive upheavals. No tenants dream of conversions. That is left for those who profit enormously from this gold-mine approach to housing. No new units are provided and the converter can take the money and run to the next conversion.

6. Assurances are necessary that condominium conversions will not continue to take housing away from good tenants who have paid their rent faithfully and helped their landlord buy the apartment building in the first place.

Executed on March 13, 1981, at Los Angeles, California.

I declare under penalty of perjury that the foregoing is true and correct.

  
DORA ASHFORD



1306

River Park House  
Philadelphia, Pa. 19131  
December 29, 1980

Representative Benjamin Rosenthal  
Chairman of Sub-Committee  
Commerce, Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D. C. 20515

Attention: Ted Jacobs

Dear Congressman Rosenthal:

We understand that your committee is presently investigating condominium conversions, for which we commend you.

As residents of Philadelphia, Pennsylvania, soon to be displaced by the affects of condo conversions, we would like to inform you about what is happening here in Philadelphia and the surrounding area by these conversions.

It is our understanding that this city, among other major cities in this state and elsewhere, is targeted by the converters to make a sweep of high rise apartment buildings for the purpose of conversion. To date, and to the best of our knowledge, the following high rise apartment buildings have been sold to converters for conversion to condos:

- \*Dorchester
- Society Hill Towers
- Hopkinson House
- \*The Philadelphian
- Park City West
- River Park House
- 2601 Parkway
- Salem Harbor
- Savoy
- 7901 Henry Avenue

The following apartment buildings are outside of Philadelphia - suburbs:

- Beaver Hill
- \*Sutton Terrace
- \*191 Presidential Blvd.
- \*Green Hill
- Latches Lane
- Oak Hill

Only those apartments listed above with an asterisk may be referred to as luxury apartments.

We are presently obtaining information as to the number of units, the actual number of tenants and the average age of the residents in these units, which will be forwarded to you. We know that this represents a very large number of moderate income people who will be displaced as a result of the condo conversion.

The increased monthly costs would create tremendous hardships during this period of high inflation for those residents who might be forced to purchase the condo.

The average age at River Park House is 56 years. These are people who provided for their retirement with modest savings, many of whom were homeowners who, for health reasons in their retirement years, chose to give up home ownership and its associated responsibilities for the more secure and protective environment of high rise apartments.

A good number of the residents are widowed. They absolutely cannot afford to buy. Displacing them might force them into substandard housing; others are retired with debilitating health problems, some of which necessitate the use of wheelchairs. Living in a high rise insures their mobility.

This building was constructed with HUD money, with the clear intent to provide housing for moderate income families. There are many people who took refuge at River Park House from previous conversions with the assurance that they would never again face that trauma.

For many reasons there is no present construction of rental units. Therefore rental type housing is limited or non-existent.

WE are given no choices. Why should monopolies such as the converters be free to cause such panic and distress without any governmental restriction or intervention?

WE are aware of the role lobbyists play for the converters and the money they spend to accomplish their goal -- we can't hope to match that -- but we do have large numbers of people who will impact on this type of investigation by their presence.

WE look to our elected officials for assistance in placing a moratorium on all conversions.

WE would like to assist you in anyway we can.

WE would ask that you advise us as to what information we can obtain for you in furthering your investigation. Further, can we be of some assistance to you at your hearings?

It is our hope that this letter conveys the urgency of our desperation.

Respectfully submitted on behalf of the  
Residents of River Park House

Benjamin B. Solomon

Annette Solomon

Victor K. Singer

Hannah Singer

Norman Schmorley

Hannah Schmorley

Alexandra T. Abrahamson

Claire Liberman

Shirley P. Kratz #1616

Priscilla Kratz #1815

cc: Senator John H. Heinz  
Senator Ariene Spector  
U. S. Representatives Pennsylvania  
Delegation

1309

RECEIVED  
THIRD AND BROAD  
A. PHILLIP JOHNSON  
ADMINISTRATIVE ASSISTANT

WILLIAM M. BRODHEAD  
CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C. 20515  
THE CONGRESS-MANAGEMENT  
TELEPHONE (202) 225-4999

RECEIVED OFFICE  
JAMES SHAW, FORMER ATTORNEY  
CITYVIEW, MASSACHUSETTS 02119  
TELEPHONE (617) 867-1489

October 21, 1980

Honorable Benjamin Rosenthal, Chairman  
Subcommittee on Commerce, Consumer,  
and Monetary Affairs  
House Government Operations Committee  
Washington, D.C. 20515

Dear Ben:

I understand that the Subcommittee is now investigating the activities of American Invsco in the field of condominium conversion. This is a matter of deep interest to me.

I have recently heard from one of my constituents about this company's activities in the Congressional District I represent. He expressed concern about the company's business practices and its treatment of tenants in the building it has bought for conversion. I have enclosed a copy of the portion of my constituent's letter that deals with this subject.

I wanted to let you know of my support for the Subcommittee's work, which I hope will lead to a thorough consideration not only of this particular matter but of the important subject of condominium conversion which is having so profound an effect on so many citizens.

Thank you for your consideration in this matter.

Sincerely yours,

*Bill Brodhead*  
William M. Brodhead  
Representative in Congress

MBS/ebd  
Enclosure

CONGRESSMAN BEN ROSENTHAL	
RECEIVED	
DATE	NOV 5
TIME	10 2
OCT 23 1980	
FILE	
FILE	

1310

235 Pierce Street, Birmingham, Michigan 48011 Telephone: 646-7793

10-16

October 13, 1980

HackShoes

Honorable William M. Brodhead, M.C.  
416 Cannon House Office Building  
Washington D. C. 20515

Dear Bill:

I am told that the Wall Street Journal for Monday, Oct. 6, reported that Nicholas Gouletas, head of American Invasco, had been summoned to appear before a Congressional committee (presumably the House Government Operations subcommittee, chaired by Rep. Benjamin Rosenthal).

Perhaps, you might like to suggest to Rep. Rosenthal that he seek to determine from where the money came to permit this former encyclopaedia salesman to become the apartment conversion king in 10 years.

American Invasco has driven and continues to drive a whole host of your supporters out of the 17th District. Many of us are moving to apartments in West Bloomfield but this is only part of the story.

Presently, the 487 apartment of Hunters Ridge are between 25% to 33% empty, depending on the source of the latest rumor. Hunters Ridge was reportedly purchased for \$32,000,000.00 CASH. If there are only 100 apartments now vacant, that's a loss in revenue of \$80,000.00 per month, over \$1,000,000.00 per year. Who can afford such a drain? Deductible from taxes, of course.

Those of us whose leases will expire before our new apartments will be ready for occupancy are being "held-up". We can accept a new, one year lease, at a 15% increase with the condition that we may be evicted on 60 days notice if our particular apartment should be sold or, if we want a shorter term, in my case, 6 months, the increase is 25%, also with a 60 day option on the part of Hunters Ridge.

22015 Michigan  
Dearborn, Michigan 48024  
563-7700

79360 Livernois  
Detroit, Michigan 48221  
864-7790

20901 Italy Road  
East Detroit, Michigan 48021  
776-7790

23 East Adams  
Detroit, Michigan 48226  
646-7790

1311

Of course, all of this hard line pressure has inurred to the benefit of other apartment complex owners. It has led to the disruption of 450 lives (if as many as 37 tenants have agreed to buy).

As I mentioned to you a year or so ago, the tax dodge permitted by repetitious full depreciations of the costs of the same properties is a tax drain.

Surely, the original developer who builds new taxable properties deserves the benefits of depreciation; the weakness is that after full depreciation, the original owner can sell to another who accrues the full tax benefits of depreciation. This continues ad infinitum.

Michigan recently passed a curbon apartment conversions. It is, of course, not retroactive but it also covers only apartments in the below average price range. Thus, builders will be interested only in construction of luxury apartments.

Whatever happened to H.R. 3990?

Sincerely,

  
Morton Hack

FOOTNOTE: The enclosed photocopy is from the Washington Post but derogatory articles on AMVSCO have appeared in the New York Times and the Wall Street Journal.

1312

BENJAMIN S. ROSENTHAL, D.C. CHAIRMAN  
ROBERT T. RUTTEN, R-PA  
ROBERT W. JOHNSON, D-PA  
FREDERICK A. W. BROWN, D-PA  
JOHN C. COOPER, JR., D-PA  
ELBERT R. LINDLEY, D-PA

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE

OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 6-077  
WASHINGTON, D.C. 20515

October 28, 1980

JOHN C. COOPER, JR., D-PA  
JOHN C. COOPER, JR., D-PA  
JOHN C. COOPER, JR., D-PA  
JOHN C. COOPER, JR., D-PA  
JOHN C. COOPER, JR., D-PA

Hon. William M. Brodhead  
Representative in Congress  
Room 416 - CHOB  
Washington, D. C. 20515

Dear Bill:

Thank you for your letter of October 21, 1980, regarding the subcommittee's investigation of the public policy impacts of the condo and coop conversion phenomenon.

I appreciate your expression of support for the subcommittee's work in this area. I am deeply concerned about the displacement of the elderly, the poor, and the handicapped as well as rising housing costs and inflation resulting from conversions.

The subcommittee is reviewing the entire issue of Federal agency reaction to conversions. Our inquiry regarding American Invsc is only part of the process. We hope to have hearings when Congress meets again after the election.

Thank you for writing.

Best regards,

Sincerely,

Benjamin S. Rosenthal  
Chairman

BSR:jb

1313

WILLIAM L. ROBERTSON, JR., CHAIRMAN  
JOHN B. BENTLEY, JR., VICE  
CHAIRMAN  
WILLIAM L. ROBERTSON, JR., VICE  
CHAIRMAN  
JOHN B. BENTLEY, JR., VICE  
CHAIRMAN

NINETY-SEVENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 8-277  
WASHINGTON, D.C. 20515

LITTLE WILSON, INC.  
1000 WILSON, WASH.  
D.C. 20007  
WILLIAM L. ROBERTSON, JR., VICE  
CHAIRMAN

MAJORITY—(100) 100-100

April 3, 1981

MEMORANDUM

TO: Subcommittee Members  
FROM: Ted Jacobs  
Subcommittee General Counsel

*Ted*

The attached letters dated March 31, 1981, were received by me from Martin Merson, one of the witnesses at the subcommittee hearing held on Monday, March 30, 1981. He asks that I distribute same to members of the subcommittee.

Enclosure  
TJJ:dfb



1314

MARTIN MERSON

1004-560-238-  
So 4-229-1898

31 March 1981

*Memo to Republican members of Commerce, Consumer, and Monetary Affairs Subcommittee:*

*As a conservative Republican who vigorously supported Ronald Reagan in the November Presidential election, I found the drift of your questions deeply disturbing. It seemed to me that you were more than anxious to appear publicly as defenders of the so-called "Free Enterprise System". Your choice of American Invesco and Nathan Landau as representative of the Free Enterprise System is downright misleading, both to your constituents at home and to those who know anything about American Invesco. The fact is that unless such "pirates" are curbed, we will sound the death knell of the Free Enterprise System. You had before you a group of elderly citizens who reported earnestly and sincerely personal experiences with the depredations of the converters and those who make conversion possible. To all intents and purposes you chose to ignore this testimony, or at least that was the impression you gave me.*

*One of your aristocratic questions concerned how one could permit Landau to make obscene profits in the sale of the Promenade to American Invesco and yet fail to accord American Invesco the same freedom. You tied this to the fact that some of the witnesses had sold homes and probably made a profit. I do not understand your logic. Do you seriously equate the sale of a single family home to the transaction involving the sale of a high rise with 1072 units--probably exceeding in size the population of many towns in the states from which you come? I am shocked at your failure to perceive the damage which conversion is wreaking on our once fair land.*

*This was the line of your questions, and nothing would please me more than to appear before you and respond to your questions fully and fairly. I suggest that in addition to your subcommittee, the news media and the like, that you have present Wilbur Mills, my Harvard Law School classmate, Arnold Porter--the law firm which represents American Invesco, Nathan Landau and anyone else you see fit to call.*

*Let me remind you that when Eisenhower came to office in 1952, the Republicans gained control of Congress. You were quite young at that time, and perhaps do not recall that they held that control for only two years. I suggest that you get from the Library of Congress a little book which the head of Macmillan asked me to write: The Private Diary of a Public Servant. I locked myself in a room in the Harvard Club of New York City and wrote that sordid story in thirty days. It will depress you as it did me. But it may remind you not to ignore the basic human needs of your fellow man.*

*Martin Merson*  
Martin Merson

1315

MARTIN MERSON



1204-6-20-8377  
874-22/-1898

31 March 1981

Dear Mr. Jacobs:

Thank you for the privilege of appearing as a witness at the Sub Committee's hearing on 30 March 1981. In this connection, and in accordance with your suggestion I enclose separate memo of expenses together with receipts from the Skyline Inn and Amtrak.

I am also taking the liberty of enclosing a memo addressed to the Republican members of the Sub Committee whose questions appeared to me to be on the hostile side. These gentlemen may be interested to know that I am a conservative Republican who strongly supported Ronald Reagan in the November 1980 presidential election. However, I feel strongly that the so-called "malefactors of wealth" of DR's day have exchanged places with the children or grandchildren of those whom Roosevelt viewed as the "oppressed". For example, Evangeline Gouletas who has just made the newspaper headlines because of a rumored alliance with Hugh Carey, was undoubtedly not born with a silver spoon in her mouth. She and her brother who appear to be the dominant interests in American Invesco Corp. are surely malevolent influences if the testimony of your elderly witnesses is credible. Moreover, Thurman Arnold must be spinning in his grave at the thought that his old law firm is defending American Invesco. Finally, what do you make of the little country boy from Arkansas who, in the hey-day of his political career, made such an ass of himself appearing as a lobbyist for Invesco and successfully, so it seems, influencing Republicans on your Sub-Committee.

If you wish I shall be only too happy to appear again and respond to any unanswered questions concerning Nathan Landau whose name I brought up during my testimony. Best wishes to you and Congressman Rosenthal.

Sincerely,

Martin Merson

Martin Merson

Encls.

P. S. What, if any, publicity did Monday's hearing generate on TV, radio or in newspaper? I should appreciate your advising me on this point and also sending me copies of anything which you saw.

1316

October 23rd, 1980


To: The Management of the Promenade

On September 29th, 1980, my husband had emergency surgery for the removal of a lustrinsic tumor located on the right side of the brain. This tumor was diagnosed as malignant with the prognosis of survival from six months to a year.

Due to the unexpected tragic events that has occurred, it is impossible for me to vacate our apartment on or before January 31st, 1981.

I approached your Miss Solotar with my problem last week and she informed me that I would have to vacate my apartment - no exceptions - and why didn't I ask for assistance in July. Since her reply was so very stupid, as well as tactless and insensitive, this letter becomes necessary.

I can assure you that I have no desire to remain under your management for an extended period of time. However, due to the above circumstances, I cannot and will not be pressured for a vacancy date. I will sign a lease if necessary.

  
Lilyan Halperin  
Apartment 411 North

1317

25 March 1981

My husband and I moved into The Promenade in July, 1975 with plans to remain there until our retirement and possibly longer.

Last year when the building was sold as a cooperative, my husband and I were forced to make a decision of whether to move into another apartment or purchase. We would never invest in a cooperative, and therefore, purchased a townhouse. We were to move on November 1st.

In September, my husband was suffering from headaches and after many tests and X-rays, a brain tumor was detected. He was operated on September 30th, 1980. The tumor was malignant with the prognosis of six months to a year to live.


On October 23rd, 1980, I decided to visit the Consumer Relations Office at the Promenade, to advise them of the tragic illness of my husband, that I cancelled the purchase of our townhouse, and also, that under the circumstances I could not consider vacating my apartment in January, 1981.

Ms. Solatar was in the office making coffee. When I told her what had happened to my husband, her reply was "We make no exceptions. You will have to vacate your apartment." I asked her if she realized that I was telling her my husband was dying, and her reply was "We make no exceptions. You should have asked for assistance in July when we had our assistance program for the disabled. You will have to move." I tried to explain that my husband had no symptoms of an illness in July. She turned her back to me and went into the other room.

Needless to say, I left the office sobbing. I then wrote a letter to the Tenant's Association at the Promenade, and through them and the efforts and sympathetic compassion of Congressman Michael Barnes I was able to remain at The Promenade with the grant of a year's lease.

The cold, tactless, brutal and yes, stupidity of Ms. Solatar will long be remembered by many people. This person certainly should not be representing a so-called Consumer Relations Office.

My husband never had the opportunity to return to our apartment. He recently passed away.

  
Lillian Halperin  
5275 Pooks Hill Road  
Apt 411 North  
Bethesda, Maryland 20014

### House of Representatives

Washington, D.C. 20515

November 18, 1980

[illegible][illegible]

Dear Mr. Halperin:

Carolyn Neal of my staff subsequently contacted Ms. Ann Solotar of American Invesco several times to express my concerns about your situation.

I hope that my efforts on your behalf were helpful. If you should ever need assistance again, on this or any other matter, please feel free to contact me.

Sincerely,

Michael D. Barnes

MDB/CHN

APPENDIX 2.—CORRESPONDENCE BETWEEN SUBCOMMITTEE AND  
GOVERNMENT AGENCIES

ROBERT C. MCINTOSH, D.C., CHAIRMAN  
JOSEPH T. DUTTON, D.C.  
SAMUEL E. LUTHER, D.C.  
FRANK A. ST. GEORGE, D.C.  
JOHN C. HARRIS, JR., D.C.  
ALBERT E. LUTHER, D.C.

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 8-207  
WASHINGTON, D.C. 20540

WILLIAM H. HARRIS, D.C.  
JOHN C. HARRIS, JR., D.C.  
ALBERT E. LUTHER, D.C.  
HARRIS—HARRIS—HARRIS

August 21, 1980

Hon. Alfred E. Kahn, Chairman  
Council on Wage and Price Stability  
726 Jackson Place, N.W.  
Washington, D. C. 20506

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invsco, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

We are concerned that the wide-scale national practice of outside developers purchasing a rental building and then reselling the units at substantially increased prices to the residents or to speculators has a severe inflationary impact on the housing markets. Additionally, conversions of rental units into condos or coops add nothing to the total number of housing units available.

In the case of the recent acquisition by affiliates of American Invsco Corporation of the Promenade Apartments in Bethesda, Maryland, we are informed that the purchaser paid the equivalent of about \$50 per square foot and is selling units at the rate of about \$100 per square foot. As a result, we estimate that for a typical tenant at the Promenade, the monthly cost of occupying an apartment under cooperative status will be approximately 2 1/2 times greater than under rental status. Because of the limited and fixed incomes of many tenants of converted buildings, the tax advantages of ownership have little or no meaning when measured against the large cash downpayment and substantially increased monthly costs necessitated by the conversion. Moreover, because of this artificially high price for units in the Promenade, we are advised that surrounding condominium and rental unit prices have increased dramatically in a very short time.

1320

In order to pursue our inquiry, please supply the subcommittee with such background information, statistics and other data as is necessary to present a complete picture of the inflationary impact resulting from the purchase of condo or coop units in formerly residential units.

We would also be interested in an analysis of the inflationary impact of previous American Inesco Corporation activities. This company is the country's largest condominium converter and in the past several years has been instrumental in conversions in about 30 cities, including Chicago, New York, Atlanta, Nashville, Cleveland, Dallas, New Orleans, Houston, Des Moines, Milwaukee, San Antonio, Ft. Lauderdale, St. Petersburg, Denver, Memphis and areas surrounding Philadelphia and Washington, D.C., among others. In many instances the very high prices offered by American Inesco made it inevitable that the previous owner of rental property would sell, and the inflated price would be increased even more when units were sold by American Inesco to individual purchasers. This is a classic example of an inflationary spiral which results in no increase in available total housing units.

The subcommittee staff has already been in touch with COWPS staff by telephone. I am interested in moving quite rapidly on this critical matter and would appreciate your immediate response.

Sincerely,

Benjamin S. Rosenthal  
Chairman

Enclosure

BSR:jb

1321

MICHAEL D. BARNES  
8TH DISTRICT, MARYLAND  
—  
LEGISLATIVE OFFICE  
307 LEONARDT HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-5241

LEGISLATIVE OFFICE  
204 LEONARDT HOUSE  
SECOND FLOOR  
307 LEONARDT HOUSE, MARYLAND 20515  
(202) 225-5241  
OFFICIAL PHONE FOR THE  
HEARING ROOMS  
TTY: 225-5241  
TTY: 225-5242



Congress of the United States  
House of Representatives  
Washington, D.C. 20515  
August 19, 1980

COMMITTEE ON FOREIGN AFFAIRS  
—  
SUBCOMMITTEE  
EUROPE AND THE MIDDLE EAST  
INTERNATIONAL ECONOMIC  
POLICY AND TRADE  
—  
COMMITTEE ON THE JUDICIARY  
—  
SUBCOMMITTEE  
IMMIGRATION, REFUGEES AND  
INTERNATIONAL LAW  
ADMINISTRATIVE LAW AND  
GOVERNMENTAL RELATIONS  
—  
COMMITTEE ON THE DISTRICT  
OF COLUMBIA  
—  
SUBCOMMITTEE  
JUDICIARY, MANPOWER  
AND EDUCATION

The Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

Recently it was announced that The Promenade, an apartment building at 5225 Pooks Hill Road in Bethesda, Maryland, would convert from its current status as rental apartments into a cooperative. The decision of the Promenade's owners to undertake the conversion has resulted in local litigation to try to stop it, and the case is presently in court. The Promenade is located in Montgomery County in the 8th congressional district of Maryland, which I represent.

I believe that the manner in which this conversion is being attempted raises serious questions of public interest which fall within the jurisdiction of the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, which you chair. There are concerns with respect to potential consumer fraud and false advertising and questions involving the financing of the proposed cooperative which fall within the purview of the subcommittee. In addition, there are broader questions with respect to how the practices involved in the Promenade conversion work elsewhere in the nation, and the effects they have on the pricing and availability of housing for millions of Americans.

I would therefore request that the Subcommittee on Commerce, Consumer and Monetary Affairs undertake an investigation of the Promenade conversion. My office is ready to give you any assistance which may be helpful to you in this matter.

I very much appreciate your consideration of this request.

Sincerely,

*Mike Barnes*  
Michael D. Barnes

MDB/map



1322

EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL ON WAGE AND PRICE STABILITY  
WINDER BUILDING, 600 - 17TH STREET, NW.  
WASHINGTON, D.C. 20506

SEP 19 1963

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce, Consumer  
and Monetary Affairs  
U.S. House of Representatives  
Washington, D. C. 20515

Dear Congressman Rosenthal:

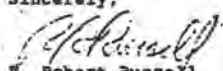
Chairman Kahn has asked me to reply to your letter of August 21 regarding the preliminary inquiry your Committee is conducting into condominium and cooperative conversions.

As we told your staff, the Council has not studied the inflationary impact of condominium and cooperative conversions. A thorough investigation of this matter would be far beyond our limited resources. Cities have vastly different condominium, cooperative-conversion, and tenant-protection laws. In addition, the availability of rental housing varies drastically according to unique supply/demand factors in each location.

I would like to respond to two concerns expressed in the second paragraph of your letter. First, it is not clear that conversions of rental units into condos or coops always have a severe inflationary impact on the housing market. If the nominal price increases of these converted housing units reflect an increase in the property's real value, then the rise in prices is not necessarily inflationary. The price increases of the converted rental units may reflect an increase in the relative attractiveness of the apartment units resulting from either quality improvement or development of the surrounding area. In fact, in many areas rent control laws have artificially depressed rents and resulted in housing deterioration or abandonment. Second, the conversion of rental units into condos and coops may increase the total number of housing units available. As a result of the rise in housing and property values, builders may find it profitable to build more housing units.

This does not mean that the Council is not concerned about the effects of inflation in the housing market. We continue to monitor prices in this area, particularly building-materials prices. Moreover, we are sympathetic to the plight of persons who have been or who face being uprooted by cooperative or condominium conversion, but it appears that the Department of Housing and Urban Development would be the government agency best equipped to investigate the issues you have raised.

Sincerely,

  
R. Robert Russell  
Director

1323

*Congress of the United States*  
*Committee on Government Operations*  
*House of Representatives*

January 6, 1981

Hon. John G. Heimann  
Comptroller of the Currency  
409 L'Enfant Plaza East S.W.  
Washington, D.C. 20219

Dear Mr. Heimann:

As I mentioned in our recent telephone conversation, the Subcommittee on Commerce, Consumer, and Monetary Affairs is conducting an investigation into the impact of Federal laws and Federal agency programs on the condominium and cooperative marketplace. Our concerns include the appropriate utilization of mortgage resources under current economic conditions and the impact of the conversion process on rising housing costs and inflation generally. The investigation has a national focus and we are concerned with the industry and conversion practices nationwide. Nevertheless, we have initially begun to study the major national condo converter -- American InvSCO Corporation -- and it is partly with respect to the activities of this company that your assistance is required.

To further our inquiry, please make the following information available to the subcommittee:

1. The Community Reinvestment Act portion of the Comptroller's last two examination reports for Chase Manhattan Bank, Chemical Bank, the Bank of America, Continental Illinois Bank and American National Bank of Chicago.

2. A schedule of all loans made within the past five years to American InvSCO Corporation or any of its principals or affiliates by Chase Manhattan Bank, Chemical Bank, Bank of America, Continental Illinois Bank and American National Bank of Chicago in connection with the purchase of real property for conversion, including a brief description of the terms and conditions of each such loan. Please also furnish a copy of the appraisal of the property in question for each such loan. The subcommittee is interested in the scope, nature, terms and purposes of loans made by the named banks to American InvSCO Corporation or its principals or affiliates in connection with compliance with the Community Reinvestment Act and to understand how mortgage resources are utilized by these banks. The subcommittee understands the possible sensitivity of these documents and would be willing to assure confidentiality of any non-public data turned over pursuant to this request.

Sincerely,

Benjamin S. Rosenthal, Chairman  
Commerce, Consumer and  
Monetary Affairs Subcommittee

BSR:jv



Comptroller of the Currency  
Administrator of National Banks

Washington, D. C. 20219

February 18, 1981

Dear Chairman Rosenthal:

This is in response to your letter of December 17, 1980, to the Federal Home Loan Bank Board ("FHLBB") and subsequent letter to this Office of January 6, 1981, regarding the Subcommittee's investigation of the condominium and cooperative housing market. That part of the earlier inquiry concerning national banks was referred by the FHLBB to this Office for response.

The letter of January 6th requests that we make available to the Subcommittee: (1) the last two Community Reinvestment Act ("CRA") examination reports prepared for certain specified national banks; and (2) a schedule of all loans made by those banks to American Invasco Corporation or any of its principals or affiliates within the past five years. You ask that we provide a brief description of the terms and conditions of each loan by the national banks and a copy of the appraisal of the property for each such loan. You request that we provide the above information on Chemical Bank. Since the Bank is a state member institution regulated by both the Federal Reserve Board and the New York Superintendent of Banks, we suggest that you contact these organizations for the desired loan information.

We have carefully reviewed the recent CRA examination reports of the identified banks to determine whether lending for the purpose of converting rental housing to condominiums and cooperatives was addressed in any report. Our review has disclosed no notation or criticism of such lending in the reports. We also found no specific reference to the making of any loans to American Invasco Corporation or any of its principals or affiliates. Furthermore, we found no evidence that these banks were actively lending to individual tenants or tenant groups facing displacement by conversion.

In light of the absence of any information in those reports regarding condominium or cooperative conversion lending, they would seem to be of no relevance or value to the Subcommittee's inquiries. Moreover, as you know, Congress has on numerous

occasions emphasized the confidentiality of bank examination reports and has carefully circumscribed the conditions under which material from such reports may be disclosed. See 5 U.S.C. § 552(b)(8) (exempting examination reports from public disclosure under the Freedom of Information Act); 12 U.S.C. § 481 (permitting disclosure of examination reports only upon failure to comply with recommendations of the OCC); 12 U.S.C. §§ 1442 and 1817(a)(2) (authorizing the confidential release of OCC examination reports to the FDIC and to the FHLBB); 18 U.S.C. § 641 (making it a crime to convey or dispose of any record of a government agency); and 18 U.S.C. § 1906 (imposing criminal penalties on a bank examiner who discloses information obtained during an examination).

In view of the absence of any specific information in the reviewed reports pertaining to the investigation of the Subcommittee, and our obligation to preserve their confidentiality, we are constrained from making the reports available to the Subcommittee staff. Of course, these reports and others are available to the General Accounting Office ("GAO") within the confines of its statutory authority and its obligation to preserve their confidentiality. See 31 U.S.C. § 67(e).

Your letter of January 6 also requests that we provide the Subcommittee with a schedule of all loans made to American Invsco by the specified national banks within the last five years. The letter of December 17, 1980, which has been referred by the FHLBB to us for response, similarly requests information regarding individual bank customers and trust account arrangements.

The broad visitorial authority possessed by this agency to review records of a national bank is, within the confines of available resources, focused on compliance with specific federal and state statutes and those internal procedures necessary to assure safe and sound operation of the institution. Because of this focus, it is almost certain that our examination reports would not routinely contain the kind of loan information requested by the Subcommittee. In any event, as noted above, we could not provide such confidential information on individual bank customers in response to your request. We do note that a review of the trust examination reports of national banks identified in your letter of December 17, 1980, to the FHLBB discloses no reference to the trust accounts identified as of interest to the Subcommittee. In fact, these reports contain few references to land trusts in general.

In light of the above, we recommend that the Subcommittee obtain the desired information directly from the banks, from American Invsco and its affiliates and principles, or from the individual bank customers involved. We shall, of course, be pleased to

1326

analyze any specific information submitted to us by the Subcommittee in light of the responsibilities of national banks under federal law.

Sincerely,



John G. Heimann  
Comptroller of the Currency

The Honorable  
Benjamin S. Rosenthal  
Chairman, Commerce, Consumer and Monetary  
Affairs Subcommittee of the Committee on  
Government Operations  
Rayburn House Office Building  
Room B-377  
Washington, D.C. 20515

ROBERT C. ROBERTSON, JR., CHAIRMAN  
JOHN G. COFFIN, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN

NINETY-SEVENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 3-277  
WASHINGTON, D.C. 20540

JOHN G. COFFIN, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN  
ROBERT C. ROBERTSON, JR., VICE CHAIRMAN

February 19, 1981

Hon. John G. Heimann  
Comptroller of the Currency  
Administrator of National Banks  
Washington, D. C. 20219

Dear Mr. Comptroller:

This is in reply to your letter of February 18, 1981, in which you inform me that you "are constrained" from making certain requested CRA reports available to the subcommittee. You cite various laws under which Congress "has carefully circumscribed the conditions under which material from such reports may be disclosed."

In my view, none of the cited statutes prevents disclosure to a congressional committee in pursuit of legitimate legislative or oversight functions. In *McGrain v. Daugherty*, 273 U.S. 135, 175 (1927) the Supreme Court noted that the power to investigate is inherent in the power to make laws because a "legislative body cannot legislate wisely or effectively in the absence of information respecting the conditions which the legislation is intended to affect or change." In *Watkins v. United States*, 354 U.S. 178, 187 (1957) Chief Justice Warren speaking for the court stated:

"We start with several basic premises on which there is general agreement. The power of the Congress to conduct investigations is inherent in the legislative process. That power is broad. It encompasses inquiries concerning the administration of existing laws as well as proposed or possibly needed statutes. It includes surveys of defects in our social, economic or political system for the purpose of enabling the Congress to remedy them. It comprehends probes into departments of the Federal Government to expose corruption, inefficiency or waste...."

It is thus quite clear that this subcommittee's oversight mandate, which specifically includes the Comptroller of the Currency, entitles it to exercise plenary investigative and information gathering authority unless some other statutory restriction is raised to limit that power. None of the laws cited in your letter fall within such statutory restriction:

1328


1. The Freedom of Information Act explicitly states that nothing in the act grants authority to withhold information from the Congress. 5 U.S.C. 552(c)

2. The sections of Title 12 cited in your letter (12 U.S.C. 481, 1442 and 1817(a)(2)) are irrelevant to the issue of disclosure to a congressional committee. These sections simply authorize or permit disclosure under certain circumstances but are clearly not exclusive nor do they prohibit disclosure to Congress.

3. The sections of the Criminal Code cited (18 U.S.C. 641 and 1906) clearly refer only to unauthorized disclosures. These prohibitions may not be invoked against a request of a committee or subcommittee of Congress since they are inapplicable where disclosure is "authorized by law."

In light of the above, I reiterate the requests made in my letter of January 6, 1981. I would prefer to have these materials on a voluntary basis, but I cannot permit the authority of Congress to obtain information to be flouted in this manner.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:jb

*Congress of the United States*  
*Committee on Government Operations*  
*House of Representatives*

January 6, 1981

Hon. John G. Heilmann  
 Comptroller of the Currency  
 409 L'Enfant Plaza East S.W.  
 Washington, D.C. 20219

Dear Mr. Heilmann:

As I mentioned in our recent telephone conversation, the Subcommittee on Commerce, Consumer, and Monetary Affairs is conducting an investigation into the impact of Federal laws and Federal agency programs on the condominium and cooperative marketplace. Our concerns include the appropriate utilization of mortgage resources under current economic conditions and the impact of the conversion process on rising housing costs and inflation generally. The investigation has a national focus and we are concerned with the industry and conversion practices nationwide. Nevertheless, we have initially begun to study the major national condo converter -- American Invsco Corporation -- and it is partly with respect to the activities of this company that your assistance is required.

To further our inquiry, please make the following information available to the subcommittee:

1. The Community Reinvestment Act portion of the Comptroller's last two examination reports for Chase Manhattan Bank, Chemical Bank, the Bank of America, Continental Illinois Bank and American National Bank of Chicago.

2. A schedule of all loans made within the past five years to American Invsco Corporation or any of its principals or affiliates by Chase Manhattan Bank, Chemical Bank, Bank of America, Continental Illinois Bank and American National Bank of Chicago in connection with the purchase of real property for conversion, including a brief description of the terms and conditions of each such loan. Please also furnish a copy of the appraisal of the property in question for each such loan. The subcommittee is interested in the scope, nature, terms and purposes of loans made by the named banks to American Invsco Corporation or its principals or affiliates in connection with compliance with the Community Reinvestment Act and to understand how mortgage resources are utilized by these banks. The subcommittee understands the possible sensitivity of these documents and would be willing to assure confidentiality of any non-public data turned over pursuant to this request.

Sincerely,

Benjamin S. Rosenthal, Chairman  
 Commerce, Consumer and  
 Monetary Affairs Subcommittee

BSR:jv



1330



Comptroller of the Currency  
Administrator of National Banks

Washington, D.C. 20219

February 23, 1981

Dear Mr. Chairman:

Mr. Heimann asked me to acknowledge your letter of February 19, 1981, concerning your request for certain CRA reports to be forwarded to the subcommittee.

A response is being prepared and will be forwarded to you at the earliest possible date. If there are any questions in the interim, please do not hesitate to contact me.

Sincerely,

  
Donald A. Melbye  
Special Assistant for  
Congressional Affairs

The Honorable  
Benjamin S. Rosenthal, Chairman  
Subcommittee on Commerce, Consumer, and  
Monetary Affairs  
House of Representatives  
Washington, D.C. 20515

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Comptroller of the Currency  
Administrator of National Banks

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Washington, D. C. 20219

February 23, 1981

Dear Mr. Chairman:

In response to your request of October 24, 1980, we have enclosed copies of our responses to inquiries by Chairmen Reuss and St Germain concerning this agency's plans to implement Section 603 of the recently enacted Housing and Community Development Act of 1980, Pub. L. No. 96-399 (October 8, 1980). You have also suggested that this Office conduct specific studies or analyses of: (a) speculative activity in condominium and cooperative units financed by member financial institutions; (b) increased housing costs resulting from such conversions financed by financial institutions; and (c) inflationary impact generally resulting from increased housing costs.

We share the concern of the Congress expressed in Title VI of the Act that widespread conversions of rental housing to condominiums and cooperatives may reduce the available housing options for certain citizens, particularly low-income, elderly and handicapped tenants. We do not, however, believe that this Office is the appropriate agency to conduct the types of studies which you have suggested. The OCC is a federal agency charged with certain supervisory responsibilities regarding the activities of national banks. Through periodic examinations of national banks, our examiners seek to assure conformance of national banks with reasonably prudent banking practices, their maintenance of adequate procedures, and their compliance with applicable laws, rules and regulations.

That is, the emphasis of the agency's activities is upon the safety and soundness of bank operations, and bank compliance with federal and state law. Our responsibilities do not include the broader subject matter concerns of monetary policy or housing costs. The limited resources of this Office are substantially committed to meet our statutory responsibilities outlined above. Several federal agencies, including the Department of Housing and Urban Development ("HUD") and the Federal Reserve Board ("FRB"), may be better equipped to conduct the suggested policy studies. HUD's statutory responsibilities and experience

1332

with housing issues and the FRB's concern with macroeconomic issues, such as inflation, should be utilized in the suggested studies. Many state and local jurisdictions have already undertaken to study and address the problems involved in the conversion of rental housing. Reliance upon the insights afforded by such state and local actions would be consistent with the clear congressional preference, expressed in the legislative history of Title VI, for state and local resolution of such problems.

We must respectfully decline to undertake the suggested studies and analyses. We recommend that the Subcommittee inquire of those federal agencies mentioned above and interested units of local government regarding the proposed studies.

If you have any further questions in this regard, please contact Ms JoAnn Barefoot, Deputy Comptroller for Customer and Community Programs, at 447-0934.

Sincerely,



John G. Heimann  
Comptroller of the Currency

Enclosures

The Honorable  
Benjamin S. Rosenthal  
Chairman, Commerce, Consumer, and Monetary  
Affairs Subcommittee  
Committee on Government Operations  
Rayburn House Office Building  
Room B-377  
Washington, D. C. 20515

1333

ENCLOSURE



Comptroller of the Currency  
Administrator of National Banks

Washington, D.C. 20219

January 22, 1981

Dear Chairman St Germain:

This is in response to the joint letter of October 15, 1980, from Chairman Reuss and yourself regarding Section 603 of the Housing and Community Development Act of 1980 (the "Act"), Pub. L. No. 96-399 (October 8, 1980). That Section states that:

"It is the sense of the Congress that lending by federally insured lending institutions for the conversion of rental housing to condominiums and cooperative housing should be discouraged where there are adverse impacts on housing opportunities of the low- and moderate-income and elderly and handicapped tenants involved."

You have inquired how this Office intends: (1) to discourage such lending by national banks; (2) to inform civic, religious and neighborhood organizations of this congressional action; and (3) to ensure bank compliance with the statute.

We share the concern of the Congress expressed in Title VI of the Act that widespread conversions of rental housing to condominiums and cooperatives may reduce the housing options available to certain citizens, particularly low-income, elderly and handicapped tenants.

The problems associated with such conversions of rental housing are obviously complicated by many factors, including federal and state tax policies, rent control, zoning, and prevailing economic conditions. Many state and local jurisdictions have legislatively addressed such problems already. As the Congressional Conference indicated this new federal legislation will encourage others to do so, particularly with respect to adequate notice for tenants affected by conversions.

The enactment of Title VI reflects a clear Congressional preference for continued state and local resolution of conversion problems. Significantly, Section 603 contains no federal enforcement authority or specific

sanctions. As emphasized by the legislative history accompanying the enactment of the new law, the principal enforcing power contemplated by the statute will be "public opinion." That is, the role of the federal agencies, as contemplated by the statute, is to be to encourage and promote the statutory policy without resort to formal enforcement actions of any sort. We intend to inform each national bank of the recent enactment and to encourage bank conduct in conformance with the Congressional policy embodied in the new law.

This Office is actively engaged in continuing programs designed to encourage the participation of national banks in the economic development and rehabilitation of local communities, particularly our blighted inner-city neighborhoods. Toward this end, we have recently completed a round table conference involving large and small financial institutions in order to familiarize them with the successful community reinvestment efforts of other lenders. Such meetings and regular contacts by OCC staff members with bankers, and civil and community groups will be used to effect a wide distribution and discussion of the policies of the new law.

The Community Development Division, which is part of OCC's Office of Customer and Community Programs, coordinates all such agency activities relating to consumer issues, community development, and civil rights. The Division maintains a unique status within the agency in that its relationship to banks is not of a supervisory nature, but rather one of service through information and technical assistance. Division staff members come from diverse backgrounds, with experience ranging from banking to local program implementation and policy formation. The staff also maintains liaison with other federal regulatory and independent agencies to help coordinate the resources and assistance available to banks, neighborhood groups, and local governments involved in community and economic development.

Through the specific efforts of that Division as well as other regular agency contacts, we should be able to effectively promote the announced policies of Section 603 with lenders, as well as state and local governments and neighborhood organizations. In our experience, civic-minded banks are responsive to public opinion, and particularly local concerns regarding community development. We believe, therefore, that the expression of federal policy contained in Section 603 will stimulate further lender and community awareness with regard to condominium and cooperative conversion projects.

It must be recognized, however, that unlike the provisions of the Community Reinvestment Act ("CRA"), the new law contains no federal sanction or agency authority to deny various corporate applications for failure to comply with its provisions. That is, under CRA the federal financial institutions supervisory agencies are specifically directed to assess each institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in connection with examinations and to take such records into account in evaluating various applications for additional facilities by the institution. While reference made by the sponsors of the new law to CRA suggest a similarity between that and the new statutory provision, in fact, no sanction or new agency authority to withhold federal largesse is specifically provided by the recently enacted legislation.

Several prominent members of Congress have suggested, nevertheless, that agency consideration be given to a lender's conformance to the federal policy with regard to socially undesirable conversions in assessing a lender's record for CRA purposes. Our review of the legislative history and provisions of the new law, however, discloses no specific authority for the federal agencies to do so. An express incorporation of such a policy into the existing scheme would, moreover, be inconsistent with the provisions of the earlier law and its implementing regulations.

Under agency regulations implementing CRA, the board of directors of each institution is required to adopt and review at least annually a CRA statement. The statement must contain, among other things, a delineation of the bank's local community and a list of the specific types of credit that the institution is prepared to extend. That is, each individual institution is required to define its own market area and the type of credit services in which it will engage. There exists no specific prohibition of any type or category of loans under the existing law. In our opinion, this flexibility to each institution to discern the credit needs of its own community and to design responsive banking services to meet those needs, best assures the viability of our banking system and the provision of adequate credit to the community. Any negative laundry list which prohibits certain types of lending activity would be contradictory to this scheme.

We do not intend, therefore, to establish a system for monitoring such loans by national banks. Unlike the Home Mortgage Disclosure Act of 1975 ("HMDA"), as amended, and implementing Regulation C of the Federal Reserve Board, no specific recordkeeping or reporting requirement is imposed

upon lenders by the new law. HMDA essentially grew out of allegations that there are credit shortages in certain parts of large urban areas. The purpose of that legislation was to make each institution's mortgage lending policies more visible through disclosure statements showing the actual lending activities engaged in by affected institutions.

No similar such disclosure requirement is, however, incorporated in the new law or suggested by the legislative history as necessary to ensure bank conformance to the congressional admonition contained in Section 603. We do not, therefore, contemplate the establishment of any additional recordkeeping or reporting requirement upon national banks for this purpose. In our opinion, such a requirement would be unjustifiably burdensome. In the absence of any specific statutory prohibition of bank conduct, a new recordkeeping requirement affecting a particular class of loans is unwarranted.

We believe that the proposed agency actions, as outlined above, are fully responsive to the Congressional intent reflected in the provision of the new law. The Act recognizes the need for continued local resolution of the issues regarding condominium conversions. We will under the guidance of the statute, however, undertake to encourage lenders to cooperate with civic and community groups as well as state and local governments in fashioning bank policies to best assure the housing needs of their communities.

If you have any further questions in this regard please do not hesitate to contact Ms JoAnn S. Barefoot, Deputy Comptroller for Customer and Community Programs at 447-1600.

Sincerely,

/s/ John G. Heimann

John G. Heimann  
Comptroller of the Currency

The Honorable  
Fernand J. St Germain  
Chairman, Committee on Banking Finance  
and Urban Affairs  
Room 2129, Rayburn Office Building  
U.S. House of Representatives  
Washington, D. C. 20515

ENCLOSURE



Comptroller of the Currency  
Administrator of National Banks

Washington, D. C. 20219

January 22, 1981

Dear Chairman Reuss:

This is in response to your letters of October 15 and November 20, 1980, regarding Section 603 of the Housing and Community Development Act of 1980 (the "Act"), Pub. L. No. 96-399 (October 8, 1980). That Section states that:

"It is the sense of the Congress that lending by federally insured lending institutions for the conversion of rental housing to condominiums and cooperative housing should be discouraged where there are adverse impacts on housing opportunities of the low- and moderate-income and elderly and handicapped tenants involved."

You have inquired how this Office intends: (1) to discourage such lending by national banks; (2) to inform civic, religious and neighborhood organizations of this congressional action; and (3) to ensure bank compliance with the statute.

We share the concern of the Congress expressed in Title VI of the Act that widespread conversions of rental housing to condominiums and cooperatives may reduce the housing options available to certain citizens, particularly low-income, elderly and handicapped tenants.

The problems associated with such conversions of rental housing are obviously complicated by many factors, including federal and state tax policies, rent control, zoning, and prevailing economic conditions. Many state and local jurisdictions have legislatively addressed such problems already. As the Congressional Conference indicated this new federal legislation will encourage others to do so, particularly with respect to adequate notice for tenants affected by conversions.

The enactment of Title VI reflects a clear Congressional preference for such continued state and local resolution of conversion problems. Significantly, Section 603 contains no federal enforcement authority or specific sanctions. As



emphasized by the legislative history accompanying the enactment of the new law, the principal enforcing power contemplated by the statute will be "public opinion." That is, the role of the federal agencies, as contemplated by the statute, is to be to encourage and promote the statutory policy without resort to formal enforcement actions of any sort. We intend to inform each national bank of the recent enactment and to encourage bank conduct in conformance with the Congressional policy embodied in the new law.

This Office is actively engaged in continuing programs designed to encourage the participation of national banks in the economic development and rehabilitation of local communities, particularly our blighted inner-city neighborhoods. Toward this end, we have recently completed a round table conference involving large and small financial institutions in order to familiarize them with the successful community reinvestment efforts of other lenders. Such meetings and regular contacts by OCC staff members with bankers, and civil community groups will be used to effect a wide distribution and discussion of the policies of the new law.

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Through the specific efforts of that Division as well as other regular agency contacts, we should be able to effectively promote the announced policies of Section 603 with lenders, as well as state and local governments and neighborhood organizations. In our experience, civic-minded banks are responsive to public opinion, and particularly local concerns regarding community development. We believe, therefore, that the expression of federal policy contained in Section 603 will stimulate further lender and community awareness with regard to condominium and cooperative conversion projects.

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Several prominent members of Congress have suggested, nevertheless, that agency consideration be given to a lender's conformance to the federal policy with regard to socially undesirable conversions in assessing a lender's record for CRA purposes. Our review of the legislative history and provisions of the new law, however, discloses no specific authority for the federal agencies to do so. An express incorporation of such a policy into the existing scheme would, moreover, be inconsistent with the provisions of the earlier law and its implementing regulations.

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Your recent letter also inquires if we intend to establish a system for monitoring loans by national banks to ensure that the spirit of Section 603 is observed. Unlike the Home Mortgage Disclosure Act of 1975 ("HMDA"), as amended, and implementing Regulation C of the Federal Reserve Board, no specific recordkeeping or reporting requirement is

1340

imposed upon lenders by the new law. BMDA essentially grew out of allegations that there are credit shortages in certain parts of large urban areas. The purpose of that legislation was to make each institution's mortgage lending policies more visible through disclosure statements showing the actual lending activities engaged in by affected institutions.

No similar such disclosure requirement is, however, incorporated in the new law or suggested by the legislative history as necessary to ensure bank conformance to the congressional admonition contained in Section 603. We do not, therefore, contemplate the establishment of any additional recordkeeping or reporting requirement upon national banks for this purpose. In our opinion, such a requirement would be unjustifiably burdensome. In the absence of any specific statutory prohibition of bank conduct, a new recordkeeping requirement affecting a particular class of loans is unwarranted.

We believe that the proposed agency actions, as outlined above, are fully responsive to the Congressional intent reflected in the provision of the new law. The Act recognizes the need for continued local resolution of the issues regarding condominium conversions. We will under the guidance of the statute, however, undertake to encourage lenders to cooperate with civic and community groups as well as state and local governments in fashioning bank policies to best assure the housing needs of their communities.

If you have any further questions in this regard please do not hesitate to contact Ms JoAnn S. Barefoot, Deputy Comptroller for Customer and Community Programs at 447-1600.

Sincerely,

/s/ John G. Heimann

John G. Heimann  
Comptroller of the Currency

The Honorable  
Henry S. Reuss  
Chairman, Joint Economic Committee  
Dirksen Senate Office Building  
Room G-133  
Washington, D. C. 20510



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Comptroller of the Currency  
Administrator of National Banks

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Washington, D. C. 20219

April 2, 1981

Dear Mr. Chairman:

This is in further response to your letter of February 19, 1981, and earlier correspondence concerning the Subcommittee's continuing hearings into the condominium and cooperative housing market. In connection with the Subcommittee's investigations, you have requested that the Office of the Comptroller of the Currency (OCC) disclose for your review various portions of examination reports regarding specified national banks.

In response to your initial request, we specifically reviewed the requested reports and found that none discusses condominium or cooperative housing lending activities by the particular banks. Consequently, they would appear to be of no relevance to the Subcommittee's inquiries. We set forth these findings and conclusions in our letter of February 18, 1981. We therein also discussed the congressionally mandated policy of confidentiality relating to bank examination reports and the essential purposes for preserving such confidentiality. For these reasons, we expressed reluctance to make the requested reports available and recommended that the desired information be obtained directly from the particular lending institutions or from those companies or individual bank customers involved in the Subcommittee's investigations.

In order to facilitate the inquiries of the Subcommittee, however, and to avoid unnecessary delays, our staff has discussed various ways with Subcommittee staff members of affording limited access for them to information relating to our supervisory processes and reports.


For example, we have suggested making available for scrutiny by your staff those portions of approximately twelve examination reports regarding bank activities under the Community Reinvestment Act (CRA) from which identifying details regarding the particular banks and individual customers have been deleted. The essential purpose of such a review would be to facilitate the Subcommittee's oversight activities regarding OCC enforcement policies and procedures with regard

1342

to bank conduct under the CRA and related laws and regulations. For this purpose, several recent examination reports of national banks, similar in size to those which you have identified as of interest to the Subcommittee, were prepared for your review.

We have recently been informed, however, that our efforts to accommodate the Subcommittee's inquiries are unacceptable. Presumably, the disclosure of reports pertaining to specifically identifiable institutions is required for your purposes. As we have earlier explained, such disclosures would be inconsistent with the existing policies of confidentiality relating to specific bank examination reports. We must, therefore, respectfully decline to provide access to the requested reports.

Sincerely,

  
John G. Heimann  
Comptroller of the Currency

The Honorable  
Benjamin S. Rosenthal  
Chairman, Commerce, Consumer and Monetary  
Affairs Subcommittee of the Committee on  
Government Operations  
Rayburn House Office Building  
Room B-377  
Washington, D. C. 20515

1343

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF DIRECTOR - DIVISION OF BANK SUPERVISION

November 6, 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Commerce, Consumer and Monetary Affairs  
Subcommittee  
Committee on Government Operations  
House of Representatives  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

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Dear Mr. Chairman:

In regard to your letter of October 24, 1980 to Chairman Sprague concerning Section 603 of the Housing and Community Development Act of 1980, we have been advised that Comptroller Heimann has requested the Federal Financial Institutions Examination Council address the issues you have raised at its meeting on November 6, 1980. Therefore, in order to insure a uniform approach, we plan to wait until the Council has considered the issues and offered guidance to the agencies before taking action.

You have also requested answers to the questions posed by Chairmen Reuss and St Germain in their letter of October 15, 1980. These questions will also be addressed by the Council at the November 6 meeting.

Sincerely,

  
Quinton Thompson  
Director

1344



FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF DIRECTOR - DIVISION OF BANK SUPERVISION

November 21, 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Commerce, Consumer and Monetary  
Affairs Subcommittee  
Committee on Government Operations  
United States House of Representatives  
8 377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

This is in further response to your letter of October 24, 1980 concerning Section 603 of the Housing and Community Development Act of 1980. Section 603 was discussed at the November 6, 1980 meeting of the Federal Financial Institutions Examination Council. Chairman Janis of the Federal Home Loan Bank Board informed us that his agency had recently established a task force to study the Act. A report is expected in late December.

At the invitation of Chairman Janis, other member agencies of the Council have assigned representatives to the task force. When the study is complete, we will be in a better position to respond to your inquiry.

Sincerely,

*Quinton Thompson*  
Quinton Thompson  
Director

CONGRESSMAN BEN ROSENTHAL	
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1845

UNITED STATES GOVERNMENT  
NINETEENTH CENTURY  
Congress of the United States  
House of Representatives  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 8-207  
WASHINGTON, D.C. 20515

August 21, 1980

*Response dated  
Sept 11*

Hon. Jay Janis, Chairman  
Federal Home Loan Bank Board  
1700 G Street, N.W.  
Washington, D. C. 20552

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownerships; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invsco, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

I believe you will agree that the trend toward rental conversions (which the Department of Housing and Urban Development predicts will accelerate) raises vital public policy issues affecting the rights of tenants, the cost of housing, the availability of new housing units; the distribution of scarce mortgage funds and the role of government. As the Nation's principal regulator of savings and loan institutions which provide the bulk of the funds for residential mortgage credit, the Federal Home Loan Bank Board has a crucial role to play in creating and implementing relevant national housing goals, particularly the encouragement of economical homeownership.

I am concerned that the Bank Board and other responsible Federal agencies, may not be addressing in an adequate manner the far-ranging implications of the rental conversion trend. It is clear to me, for example, that conversions of rental units into condominium and cooperative status add nothing to the total number of housing units available to our citizens. They very often result in inflated housing costs and huge profits for developers and unit purchaser-speculators. These problems are particularly relevant in situations where conversions are not tenant inspired or do not substantially upgrade deteriorating structures.

In connection with our inquiry, please respond to the following questions and/or furnish the requested information, as indicated below:



- (1) Do Federal Home Loan Bank Board regulations or examination/supervisory policies address, directly or indirectly, the circumstances under which it is appropriate or proper for thrift institutions to make loans to purchasers of condominium or cooperative units which have been converted from rental properties?

For example, do Federal Home Loan Bank Board regulations or supervisory policies:

— Distinguish between mortgage loans to purchasers of tenant-inspired as opposed to developer-inspired conversions?

— Consider whether new housing units are being created by conversions or the impact of conversions on the availability and adequacy of rental housing in areas where the rental vacancy rate is extremely low or where comparable rental housing is not available? In this regard, during recent subcommittee hearings into the low interest rates paid by thrift institutions to small savers, the FHLBB testified that higher interest rates would jeopardize the availability of funds for the construction of new housing.

— Contemplate the inflationary impact of conversions on the housing market in a specific geographical area? Do savings and loan institutions under your supervision meet the terms of their Federal charter when the extension of mortgage credit will not create new housing but will greatly inflate the cost of existing housing.

In the case of the Promenade, we are advised that American Invaco purchased this rental building for approximately \$.30 a square foot and is selling it to prospective coop owners at between \$1 and \$1.05 per square foot. This means that the monthly cost to a typical tenant at the Promenade would be approximately two and one-half times the present payment (in addition to a substantial cash outlay). Moreover, we are advised that the proposed Promenade conversion has already drive up comparable housing costs in the immediately surrounding area.

— Take into account the views of the members of the rental community in a particular geographical area?

- (2) In the case of the proposed Promenade conversion, it is alleged that American Invaco and the previous owner of the Promenade deliberately attempted to circumvent the local Maryland laws designed to protect renters in conversion situations. The law deals with condominiums and consequently the Promenade has been structured as a coop, thereby taking advantage of a technical loophole and denying tenants rights guaranteed in a condominium conversion. Would a thrift institution making mortgage loans to prospective coop purchasers — in this case the Washington Federal Savings and Loan — violate its Federal charter or FHLBB supervisory policies by joining in any circumvention of local tenant protection laws.

- (3) Finally, in order to pursue our inquiry, please supply the subcommittee with:

- a) copies of the Bank Board's two latest examination reports for Washington Federal Savings and Loan Association; and
- b) such other background information, statistics and other data as is necessary to present a complete picture of the role of the FHLBB and savings and loan institutions generally in financing the purchase of condo or coop units in formerly residential buildings. For example, what guidelines exist or supervision exercised to insure that S&Ls appraisals are independent and not merely a reflection of a price decision made by a developer? What supervision is

1347

exercised to insure that certifications of owner occupancy as a primary residence are valid? Have there been violations discovered by FHLBB examiners as to any such false certifications? These questions are set forth as examples and do not limit the subcommittee's interest in the subject.

The subcommittee staff has already been in touch with FHLBB staff by telephone. I am interested in a speedy response to the matters raised in this letter.

Sincerely,

Benjamin S. Rosenthal  
Chairman

Enclosure

BSR:bjb

1848

NINETY-SIXTH CONGRESS  
Congress of the United States  
House of Representatives  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
NATIONAL HOUSE OFFICE BUILDING, ROOM 5407  
WASHINGTON, D.C. 20540

September 5, 1980

*Response dated  
Sept 23, 80*

Hon. Jay Janis, Chairman  
Federal Home Loan Bank Board  
1700 G Street N.W.  
Washington, D.C. 20552

Dear Mr. Chairman:

I have received the two latest examination reports for Washington Federal Savings and Loan Association which I requested in connection with this subcommittee's inquiry into public policy issues arising from conversion of rental properties to condominium or cooperative ownership.

I understand the reports are "minimal" examinations and consequently omit most of the schedules which are of interest to our inquiry. I further understand that the material contained in pages 8, 9, 10, 11, 12, 13 and 14, which are omitted from one or both reports, may be available in the files or work papers maintained by the examiners. Please supply the material which would be contained in these schedules.


Also please supply all materials from the examination work papers related to the Association's compliance with the Community Reinvestment Act and Regulation C.

Among the mandatory procedures required in all examinations is "complete applicable programs and questionnaires for," among others, the Community Reinvestment Act. The examiner must consider each of the twelve assessment factors contained in 12 C.F.R. 363e.7. Among these assessments is "(e) the geographic distribution of the institution's credit extensions, credit applications and credit denials". Regulation C also requires compilation of mortgage data broken down by geographical distribution. Please supply this breakdown for the periods covered by the two reports. Please supply, in addition, the examiner's assessment of the Association's performance in this regard.

In addition, the most current examination contains several exceptions in the Association's Mortgage Loan Disclosure Statement. Please supply the completed statements as corrected. It would also be useful to have the Association's Loan Application Disposition Register for the periods covered by the reports.

I am also concerned that the omission of the pages set forth above may hinder the Board's ability to evaluate compliance with CRA. Please let me know why these pages are omitted if they bear on the Board's ability to make such evaluation.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:jv

1349

Federal Home Loan Bank Board



1700 G Street, N.W.  
Washington, D.C. 20552  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

JAY JAMES  
Chairman

September 11, 1980

Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
Committee on Government Operations  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

Your August 21, 1980 letter requested certain information on the role of the Federal Home Loan Bank Board and the savings and loan industry with regard to the financing of condominium- and cooperative-unit purchases in formerly rental developments. As a separate matter, we have provided your Subcommittee with copies of the April 6, 1979 and June 20, 1980 Reports of Examination of Washington Federal Savings and Loan Association, Washington, D.C., in accordance with your specific request.

Conversion of rental properties to condominium/cooperative ownership is a phenomenon which has accelerated in many communities in the last several years. The Department of Housing and Urban Development, in response to the concern of public policy-makers, recently completed a study on condominium conversions. The basic conclusion of their paper was that the number of condominium conversions was relatively minor and it was not considered to be a serious problem.

Whether one agrees or does not with that conclusion is something upon which reasonable persons may differ. What is clear, however, is that cooperative and condominium conversion is a response of the marketplace to perhaps one of the most anti-housing policies we have experienced -- rent control. One cannot expect the owner of a multifamily rental dwelling to continue to maintain the property as rental if he or she is allowed rent increases which do not offset the increased costs of operating the structure in a decent, safe and sanitary manner. Unless the owner is a philanthropist, only two things can happen. Either the owner will let the property deteriorate and eventually the units will become so undesirable as to effectively take them off the market. Or, the building will be converted to a

cooperative or condominium. I would suggest that the latter is certainly preferable to the former.

Even without rent control, it is becoming increasingly difficult to operate a rental building. The clear expressed preference of most people is some form of ownership. For those first time buyers who cannot afford the standard detached, single-family home, a condominium or cooperative makes good sense. The owner faced with a declining demand for rentals might respond to the market and convert the building.

The answer to this problem is not to ban conversions of rental dwellings. The answer is to increase the supply of rental buildings, so that families who want to rent can continue to do so.

Throughout its existence, the Bank Board has channeled its efforts toward maintaining the ideal of sound and economical home financing. The Home Owners Loan Act of 1933, in authorizing the Bank Board to grant Federal charters to savings and loan associations, explicitly stated that this authority would be exercised for the purpose of providing local thrift institutions in which people may invest their funds and in order to provide for the financing of homes. In line with this mandate, the Bank Board and the savings and loan industry have strived to make homeownership an attainable goal for all who desire it. In furtherance of these pursuits, the Bank Board has for some time permitted Federal associations to finance the purchase of individual condominium units. On August 2, 1979, similar authority was granted regarding cooperative units. The Bank Board took these actions in the belief that it would increase opportunities for homeownership, especially among moderate-income families.

From the Bank Board's perspective, these conversions increase the overall stock of housing available for purchase by qualified borrowers and, as mentioned above, may be one of the few means at present which will enable lower income individuals to purchase dwellings in close-in urban communities.

Neither the Bank Board nor the individual savings and loan association is normally in a position to assess the potential inflationary impact of condominiums and cooperative conversions on the housing market in a specific area. Furthermore, whether or not a particular real estate transaction will result in the creation of new housing has never been a consideration in the granting of a mortgage loan. If this were the case, loans would never be made on resale dwellings of any type. Such a policy would obviously create chaos in the real estate market.

In specific response to the Promenade conversion, the Bank Board is not in a position to assess the propriety of this project, under Maryland law, or the manner in which it was accomplished. Prudent loan underwriting practices would dictate that Washington Federal Savings and Loan Association fully assure itself that clear title will be conveyed before granting loans under its commitment. In order to have this assurance, the conversion will have to be properly effected under applicable law. In any event, it is questionable that Washington Federal could be considered to have "joined" in any circumvention of local law simply by extending a commitment to fund and loans on the project. This is a legal issue which must be left to the courts if this matter is to be further pursued.

The Bank Board requires that each loan made on the security of real estate by an FSLIC-insured institution be supported by one or more written appraisal reports disclosing market value and containing sufficient information to substantiate the market value so disclosed. The Bank Board has not further defined what constitutes "sufficient" information since the requisite information will vary according to the type and use of the property. The position has been taken by the Bank Board that an appraisal report which contains the essential data to permit an intelligent and informed decision by a person not otherwise acquainted with the property can be considered to contain "sufficient" data.

Like appraisal reports, an association's other loan records are subject to review by the examining staff. In instances where owner-occupancy is required, documentation attesting to this fact is reviewed and analyzed. Due to time and manpower constraints, all documents on every loan cannot be physically verified. When situations do warrant further verification, these matters are thoroughly pursued by the Bank Board's staff. The Bank Board has, on occasion, uncovered instances where false certifications have been used to obtain loans from FSLIC-insured associations. In the past, referrals of these matters to the Department of Justice have resulted in indictments when circumstances so warrant.

I hope this letter is responsive to your concerns.

Sincerely,  
  
 Jay Jenks  
 Chairman

1352

Federal Home Loan Bank Board

JAY JAMES  
Chairman



1700 G Street, N.W.  
Washington, D.C. 20002  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

September 15, 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce, Consumer  
and Monetary Affairs  
Committee on Government Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

I was troubled by our telephone conversation of this morning concerning my letter to you of September 11 on the subject of financing of condominium- and cooperative-unit purchases in former rental developments. I am truly sorry you felt that the tone of my letter was impertinent. It certainly was not meant to be.

You have raised a very important issue -- condominium conversions -- which must be discussed in the broad context of the national housing policy. This is where our attention must focus. In this connection, it is clear that many Americans desire to own their own homes. Ways must be developed, including home financing, to make homeownership a reality for our citizens.

I look forward to a discussion of this essential matter with you.

Sincerely,

  
Jay James

1353

Federal Home Loan Bank Board



1700 Q Street, N.W.  
Washington, D.C. 20002  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

SEP 23 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee of the Committee  
on Government Operations  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

As requested by your September 5, 1980 letter to Chairman Janis, I am forwarding copies of work papers supporting the 1979 and 1980 reports of examination of Washington Federal Savings and Loan Association. These work papers contain data relevant to pages 8 through 14 of the reports of examination, compliance with the Community Reinvestment Act and Regulation C, a compilation of mortgage loan data broken down by geographic distribution, and the examiner's CRA assessment.

We also are furnishing a copy of the institution's Loan Application Register and its Home Mortgage Disclosure Act statements.

As requested by Mr. Kirby Brant, we are providing a copy of the commitment letters between the Promenade developer and Washington Federal. An appraisal of the property has not yet been received by the institution, and therefore no loans have yet been made. We have requested the institution to advise us, and we will inform you promptly, when the report of appraisal is received.

Also in response to Mr. Brant's request, we are providing a complete, current copy of our Manual of Examination Objectives and Procedures.

Sincerely,

William R. Maloni  
Director  
Congressional Relations



1354

16

90TH CONGRESS  
Congress of the United States  
House of Representatives  
COMMERCIAL, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 5401  
WASHINGTON, D.C. 20540

September 30, 1980

Mr. William R. Maloni  
Director, Congressional Relations  
Federal Home Loan Bank Board  
1700 G Street, N.W.  
Washington, D. C. 20552

Dear Bill:

In going over the workpapers supplied with your letter of September 23, 1980, I note the enclosed regarding non-occupant loans which were not separately listed by Washington Federal Savings & Loan.

Will this prevent or delay compliance with the request contained in Chairman Rosenthal's letter of September 24, 1980, regarding Washington Federal Savings & Loan Association's (among others) adherence to FHLBB requirements on owner-occupancy? Also please let me know what remedial action has been taken with respect to the violation of Section 203.4(a)(vi) of Regulation C.

Sincerely,

*Ted Jacobs*  
Theodore J. Jacobs  
General Counsel

TJJ:edw  
Enclosure

1355

Federal Home Loan Bank Board



1700 B Street, N.W.  
Washington, D.C. 20552

Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

October 3, 1980

Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
Committee on Government Operations  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Rosenthal:

In response to the request of your staff, we are providing you copies of criminal referral letters originated by this agency during the past five years that have involved allegations of false statements on loan applications or other loan documents.

These letters contain allegations of criminal conduct by named individuals, which allegations by the nature of the referral process may be not fully substantiated or, in some cases, unsubstantiated at the time of referral. Full investigation of the alleged criminal conduct would be the responsibility of the Department of Justice. We are also sensitive to the need to maintain our working relationship with the Department of Justice on such matters. For these reasons we request that these letters be treated as confidential with access limited to those staff members who need to know the contents thereof. Should any public use of the letters be contemplated, we request that you first contact this office.

While certain of the enclosed referral letters have resulted in prosecutions by the Justice Department, we have learned from our follow-up discussions with the staff of various U.S. Attorneys' offices, that allegations of false statements on loan documents generally do not receive priority in light of the volume of more serious crimes handled by the U.S. Attorneys.

Sincerely,

Ira L. Tannenbaum  
Deputy General Counsel

1356

Federal Home Loan Bank Board

JAY JAMES  
Chairman



1700 K Street, N.W.  
Washington, D.C. 20553  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

OCT 10 1980

OCR  
Subj

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee of the Committee  
on Government Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Rosenthal:

Your September 24, 1980 letter requested the Federal Home Loan Bank Board to examine the records of four institutions under Bank Board jurisdiction and their compliance with certain regulatory requirements applicable to the conversion of the Grosvenor Park Apartments to condominiums. As discussed at Tab 1, the examiners reviewed all the loans made by the four associations during 1979 and 1980 to date.

Specifically, your letter requests the following information:

1. A determination of whether the four institutions which have supplied permanent financing in the Grosvenor Condominium Complex have complied with the FHLBB requirements on owner occupancy. Federal Regulation 545.6-2(a)(2)(v)(B) in essence precludes the granting of loans in excess of 80% of value to non-occupant owners.
2. A determination of the adequacy of appraisals supporting loans granted by each of the four institutions in the Grosvenor complex.
3. Copies of the examiner's reports on owner occupancy and on the adequacy of appraisals. I have enclosed the entire report.
4. Compliance with loans to one borrower requirements regarding these loans.

1357

5. A determination of the percentage of loans subsequently sold to the FHLBC and compliance with the attendant requirement that the seller warrant that at least 80% of the units sold in the condominium project are sold to individuals for use as their primary year-round residences. As

As noted in our previous letter accompanying the examination reports, we are furnishing this information expressly for the use of your committee.

Should you or your staff have any further questions regarding this matter, please feel free to contact Mr. William F. Maloni (377-6286).

Sincerely,

/s/ Jay Janis

Jay Janis

Enclosure

1358

Federal Home Loan Bank Board

JAY JAHNS  
Chairman



1700 G Street, N.W.  
Washington, D.C. 20552  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

OCT 30 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce, Consumer  
and Monetary Affairs  
U.S. House of Representatives  
Washington, D.C. 20515

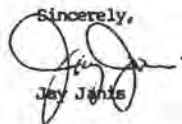
CONGRESSIONAL RECORD	
RECEIVED	
DATE	FILE
OCT 30	
PAGE	
COMMENTS	
FILE CODE	

Dear Mr. Rosenthal:

Enclosed is a copy of the Bank Board's response to a letter we received from Representatives Henry Reuss and Fernand St Germain asking how the Bank Board would implement certain provisions of the 1980 Housing and Community Development Act.

Because of your interest in the matter of cooperative and condominium conversions, I have directed the Bank Board working group to consult with your Subcommittee in our examination of this subject.

Sincerely,

  
Jay Jahns

Enclosures

1359

Federal Home Loan Bank Board



1700 G Street N.W.  
Washington, D.C. 20552  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

JAY JANIS  
Chairman

OCT 30 1980

Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Finance  
and Urban Affairs  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your and Congressman St Germain's letter of October 15, 1980 on Section 603 of the Housing and Community Development Act of 1980, which deals with the conversion of rental dwellings to condominium and cooperative ownership. I agree that some of the issues surrounding conversions need to be clarified.

You asked that I address three specific and important questions. Specifically, they were:

1. How do you intend to discourage financial institutions from lending for a conversion which will have adverse impact on the low- and moderate-income, elderly and handicapped?
2. How do you intend to inform civic, religious and neighborhood organizations of the Congressional action so that they may rely upon it to dissuade a socially undesirable conversion?
3. Finally, what necessary action do you intend to take to assure that Section 603 is being implemented by the financial institutions under your jurisdiction?

I have set up a staff working group at the Bank Board to address these issues, and I expect that the staff will be able to report back to me by the end of December. I expect they will consult with members of your staff and others interested in this issue. As soon as I review their recommendations, I will provide you with full answers to your questions. I am sending an identical letter to Congressman St Germain.

Best wishes.

Sincerely yours,

/s/ Jay Janis

Jay Janis

1360

Federal Home Loan Bank Board



1700 G Street N.W.  
Washington, D.C. 20552  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

JAY JANIS  
Chairman

OCT 30 1980

Honorable Fernand J. St Germain  
Chairman  
Subcommittee on Financial Institutions,  
Regulation and Insurance  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. St Germain:

Thank you for your and Chairman Reuss' letter of October 15, 1980 on Section 603 of the Housing and Community Development Act of 1980, which deals with the conversion of rental dwellings to condominium and cooperative ownership. I agree that some of the issues surrounding conversions need to be clarified.

You asked that I address three specific and important questions. Specifically, they were:

1. How do you intend to discourage financial institutions from lending for a conversion which will have adverse impact on the low- and moderate-income, elderly and handicapped?
2. How do you intend to inform civic, religious and neighborhood organizations of the Congressional action so that they may rely upon it to dissuade a socially undesirable conversion?
3. Finally, what necessary action do you intend to take to assure that Section 603 is being implemented by the financial institutions under your jurisdiction?

I have set up a staff working group at the Bank Board to address these issues, and I expect that the staff will be able to report back to me by the end of December. I expect they will consult with members of your staff and others interested in this issue. As soon as I review their recommendations, I will provide you with full answers to your questions. I am sending an identical letter to Chairman Reuss.

Best wishes.

Sincerely yours,

/s/ Jay Janis

Jay Janis

1361

Federal Home Loan Bank Board



1750 G Street, N.W.  
Washington, D.C. 20562  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

October 30, 1980

Mr. Theodore J. Jacobs, General Counsel  
Subcommittee of the Committee  
on Government Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Jacobs:

The violation of Section 203.4(a)(vi) of Regulation C by Washington Federal Savings and Loan Association (referred to in your September 30 letter to me) was disclosed by the examiner in the 1980 report of examination. In addition, the examiner noted that President Harris had given assurance that all deficiencies in HMDA reports would be corrected.

The Supervisory Agent's letter to the Board of Directors, among other things, points out that the report disclosed that HMDA reports were incorrectly prepared and that we were assured that all deficiencies would be corrected.

The above-described procedure is normal for this type of first-time technical violation. At the next examination, the examiner will determine whether correction has been effected.

Sincerely,

*Bill*

William R. Maloni  
Director  
Congressional Relations



1362

BENJAMIN S. ROSENTHAL, N.Y., Chairman  
NORMAN T. BARTON, CALIF.  
WILLIAM E. ATWOOD, MD.  
NICHOLAS D. COHEN, D.C.  
JOHN G. COOPER, JR., MISS.  
CLAYTON K. LUTTRELL, GA.

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
House of Representatives  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 3-207  
WASHINGTON, D.C. 20515

LESLIE HOLLAND, MD.  
JOHN J. HENNESSY, MD.  
ANDREW J. HENNESSY, MD.  
ANDREW J. HENNESSY, MD.  
ANDREW J. HENNESSY, MD.

November 20, 1980

Hon. Jay Janis, Chairman  
Federal Home Loan Bank Board  
1700 G Street N.W.  
Washington, D. C. 20552

Dear Mr. Chairman:

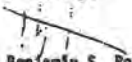
As you know, the Commerce, Consumer and Monetary Affairs Subcommittee is conducting an investigation into the impact of Federal laws and Federal agency operations, including those of the Federal Home Loan Bank Board, on the national condominium conversion trend.

Please find attached a staff report to the subcommittee setting forth, in part, the staff's investigative findings to date. A number of these findings are of direct relevance to the regulatory functions of the Bank Board.

The subcommittee staff has been in contact with officials of the Bank Board relative to this matter. Some information indicating violations of Federal laws and regulations, administered by the Bank Board, has already been turned over to your staff. Additional information will be forthcoming.

A number of the issues raised in this investigation require the Bank Board's immediate attention. We would appreciate your examining the specific issues and data transmitted by the subcommittee and advising the subcommittee of your independent findings.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:by

Attachment

1363

SEVENTH EDITION, 1968  
REPRINTED BY THE  
UNITED STATES GOVERNMENT  
WASHINGTON, D.C. 20540  
GPO : 1968 O - 348-000

SEVENTH EDITION, 1968  
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UNITED STATES GOVERNMENT  
WASHINGTON, D.C. 20540  
GPO : 1968 O - 348-000

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
NATIONAL HOUSE OFFICE BUILDING, ROOM 4047  
WASHINGTON, D.C. 20540

INTERIM REPORT BY THE STAFF OF THE  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE  
ON THE SUBCOMMITTEE'S INVESTIGATION INTO THE IMPACT OF  
FEDERAL LAWS AND FEDERAL AGENCY PROGRAMS ON THE NATIONAL  
TREND TOWARD THE CONVERSION OF MULTIFAMILY RENTAL HOUSING  
INTO CONDOMINIUM AND COOPERATIVE OWNERSHIP

CONTENTS

	<u>Page</u>
I. BACKGROUND OF SUBCOMMITTEE INVESTIGATION	1
A. Federal Interest and Involvement in the Condominium and Cooperative Conversion Marketplace is Substantial	2
B. Inflation	4
C. Disappearance of Rental Housing	5
II. STATUS OF COMPLIANCE WITH SUBPOENA	7
A. An Examination of Federal Programs Requires a Study of the Marketplace Activities Impacted by Those Programs	7
B. American Invasco Has Failed to Comply With the Subpoena	7
C. Subpoensed Documents Dealing with Prices Paid for Properties and the Expenses and Receipts of Conversion are Essential to the Subcom- mittee's Investigation	10
D. Investigative Findings	12-33

# I. BACKGROUND OF SUBCOMMITTEE INVESTIGATION

During the First Session of the 96th Congress, the Commerce, Consumer, and Monetary Affairs Subcommittee held extensive hearings, in Washington, and in a number of other cities, throughout the country, into the adequacy and effectiveness of the Federal Government's anti-inflation effort.

During hearings in virtually every city visited by the subcommittee, complaints were voiced over the rapidly rising cost of housing; the disappearance of reasonably-priced rental housing through the conversion of multifamily rental buildings to condominium and cooperative status; the dramatic increase in the cost of housing as a result of conversion; and, the failure of the Federal anti-inflation agencies to address this severe problem.

In August of 1980, the subcommittee initiated an investigation into the Federal response to the accelerating national trend toward condominium and cooperative conversions. The subcommittee directed its inquiry at the impact of Federal laws and the operations of Federal agency programs on the conversion marketplace. Specifically, the laws administered by and the operations and activities of the Federal Home Loan Bank Board (FHLBB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Council on Wage and Price Stability (CWPS), the Federal Trade Commission (FTC), the Internal Revenue Service (IRS), the Securities and Exchange Commission (SEC), and related agencies, were examined.

On October 2, 1980, a subpoena was issued by the committee to Mr. Nicholas S. Souletas (Chairman, American InvSCO Corporation), commanding the production of certain documents and data essential to the subcommittee's investigation. The

subpoena was issued to provide the subcommittee with data and information to make the day-to-day dynamics of the condominium conversion marketplace understandable and to study the impact on that marketplace of Federal programs within the jurisdiction of the subcommittee and the full committee.

A. Federal Interest and Involvement in the Condominium and Cooperative Conversion Marketplace is Substantial

Section 603 of the Housing and Community Development Act of 1980 (Public Law 96-399) express the "sense of Congress that lending by federally insured lending institutions for the conversion of rental housing to condominium and cooperative housing should be discouraged where there are adverse impacts on housing opportunities of the low and moderate-income and elderly and handicapped tenants involved."

Section 602 of the Act states, in part, that "there is a Federal involvement with the cooperative and condominium housing markets through the operation of Federal tax...laws, through the operation of federally chartered and insured financial institutions and through other Federal activities; that the creation of many condominiums and cooperatives is undertaken by entities operating on an interstate basis."

During floor debate on the conference report, Chairman Reuss of the House Banking Committee had the following to say relative to the legislation's impact on the condominium conversion issue:

"Most important is the sense of Congress section, Section 603.... The Nation's scarce pool of credit for new capital investment, small business, farmers, and particularly new housing, is sufficiently strained so that it makes no sense to encourage its use for the purpose of evicting unwilling tenants, further lowering the Nation's short supply of rental housing, and raising housing costs in the building involved and throughout the area.

"The Federal regulatory agencies, including the Federal Reserve System, the Comptroller of the Currency, the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, and the National Credit Union Administration, aware of the congressional expression, should present that point of view on the same basis that they all discourage and encourage various undesirable and desirable loans in many other areas today." (Congressional Record, 9/30/80, page H10095-6)

Even prior to enactment of the Housing and Community Development Act of 1980, the Federal agencies whose programs impact the condominium and other housing markets, had adopted policies and practices designed to limit and even discourage an important aspect of condominium conversion activity -- specifically, the heavy involvement, in condominium and cooperative unit purchases, of speculator-investors. Following, are examples of Federal agency policies and practices that impact the condominium-conversion market and which were examined during the subcommittee's investigation:

-- The Federal Home Loan Bank Board and the thrift system it supervises were established, "to encourage...economical homeownership." A recent American Law Division memorandum makes clear that "the Federal Home Loan Bank Act and the Homeowners Loan Act of 1933 were aimed primarily at helping the person who lived in his own home. The legislative history appears to contain nothing specifically expressing an intention to help investor-speculators." Moreover, Bank Board regulations require, under certain circumstances, that applicants for mortgage credit at federally chartered or insured financial institutions certify on loan applications whether they intend to occupy the property as a principal residence. An untruthful response violates the False Statements Act of the U.S. Criminal Code and is punishable by a fine and/or imprisonment. The Bank Board regularly refers such false statements to the Justice Department for prosecution.

Additionally, Bank Board regulations "penalize" speculator-investors by limiting their mortgage loans to 80 percent of the value of the property being purchased. On the other hand, qualified owner-occupants are entitled to financing up to 95 percent of a property's value.

— The FHLMC and the FNMA, which purchase residential mortgages for sale in a secondary market and thereby make additional moneys available for mortgage lending, have specific standards relating to the purchase of mortgages in converted and new condominiums. A major requirement for secondary market sale is that not more than 20 percent of a building's units be owned by speculator-investors.

— The Council on Wage and Price Stability is mandated, by statute, to enforce wage, price, and profit margin guidelines and to investigate inflation in the real estate and other sectors of our economy.

— The Council of Economic Advisers, in a January 1980 "Economic Report of the President," expressed alarm over the fact that "during the fourth quarter, housing starts dropped sharply to a rate of about 1.6 million in response to a marked increase in mortgage interest rates and reduced availability of mortgage credit. Following Federal Reserve action in October 1980, mortgage interest rates rose sharply, reaching levels well above usury limits in many states...In other states, potential home buyers found mortgage credit less readily available as mortgage lenders raised downpayments, made loans only to established depositors, and took other steps to reduce their lending."

#### B. Inflation

Rapidly rising housing costs are a principal component in the overall, unacceptable rate of inflation in our country. Housing inflation in 1980 has been running at an annual rate of approximately 13 percent. In some cities, such as

Chicago and Detroit, housing inflation has been even greater. In Chicago, housing costs increased 16.8 percent between January 1978 and March 1979. In Detroit, housing costs increased 18.6 percent in the same period. A witness before the subcommittee at its Chicago anti-inflation hearings testified that "we show a 25 percent increase in rents over the last year in our neighborhood. I would like to talk a little bit about some of the reasons for that. Number one, if you will notice...just look at what the condominium situation is here. In the city of Chicago, there are absolutely no controls on condominiums. You talk about the profits of the oil companies, the profits of the real estate companies are twice that in terms of what they have increased over the last two or three years. Regulate the real estate and regulate the utilities are the first two questions that I believe we have to deal with." ("Adequacy of the Administration's Anti-inflation Program," Hearings before the Commerce, Consumer, and Monetary Affairs Subcommittee, pages 466-472.)

#### C. Disappearance of Rental Housing

The November 10, 1980, issue of "U.S. News and World Report" reported that "about 175,000 condominiums will be built this year and 145,000 more will result from the conversion of rental properties.... There are now about 2.2 million condo owners, up from 1.2 million in 1975.... [In addition to Washington, D.C.,] other cities where conversion activity is strong include New York, Miami, Chicago, and Los Angeles. A Federal study estimates that 1.1 million more rental units will be converted by 1985."

The Department of Housing and Urban Development estimates that within 20 years 50 percent of our Nation's population will be living in condominiums. In 1970, there were only an estimated 85,000 condominium units in the entire United States. Today, Chicago and its suburbs alone contain 85,000 condo units.



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According to the July 1980 Mortgage Banker Magazine the "dollar volume of condominium loans purchased by FIMA rose over 40 percent from 1978 through September 1979, increasing from \$62.4 million to \$105.6 million."

Private mortgage insurance of single-family condominium units, as a percentage of total housing mortgage insurance, increased from 8.08 percent in 1977 to 11.05 percent in 1979.

All of the above data indicates that adequate rental housing is quickly disappearing across the Nation with the most acute problem existing in major American cities.

## II. STATUS OF COMPLIANCE WITH SUBPOENA

### A. An Examination of Federal Programs Requires a Study of the Marketplace Activities Impacted by Those Programs

American Invsco's activities in converting rental properties to condominiums and cooperative ownership are being examined as a case study of how the conversion marketplace operates and how Federal programs affect (or do not affect) conversions.

An indepth understanding of the activities of the leading condominium converters is essential if the subcommittee is to understand

- the part played by condominium converters in rising housing costs and housing inflation;
- whether Home Loan Bank Board regulations regarding mortgage lending to speculator-investors and truthful disclosure requirements on mortgage loan applications are observed and enforced; and
- whether consumer protection and securities laws are properly enforced.

American Invsco was chosen for close examination because it is the largest and the most "successful" company in the conversion industry, having engaged in over 60 conversions in 30 locations throughout the country. We were also asked by Congressman Michael Barnes, the Representative from the Eighth District of Maryland, to examine this company's activities in converting the Promenade Apartments in his district in Bethesda, Maryland. Other Members of Congress have also urged the subcommittee to examine these issues. Attached are recent congressional letters bearing on the subject of the subcommittee's investigation.

### B. American Invsco Has Failed to Comply With the Subpoena

On October 2, 1980, the subcommittee voted 7-0 to issue a subpoena for the production of documents deemed necessary to our investigation into the impact of Federal laws and Federal regulatory activities on the condominium and cooperative conversion market. A copy of the schedule listing the subpoenaed documents is attached. The subpoena was returnable on October 27, 1980.

Issuance of the subpoena was made necessary by the repeated refusal of American Invsco to produce, on a voluntary basis, the necessary documents and data. From the beginning, American Invsco took the position that it would not supply certain information. Even after the issuance of the subpoena and the staff's expressed willingness to recommend a number of modifications in the data called for, the company refused to alter its position, as set forth in Arnold & Porter's letter of October 30, 1980 (a copy of which was sent to all members of the subcommittee).

The company's legal reasons for refusing to supply the documents subpoenaed are without merit. The attached brief prepared by the American Law Division of the Library of Congress, Congressional Research Service, clearly and unequivocally supports the authority of the subcommittee to conduct this investigation. It concludes as follows:

The probe being conducted by the Subcommittee on Commerce, Consumer, and Monetary Affairs into the impact and effectiveness of Federal agency programs on the condominium and cooperative market is clearly within the well-established constitutional authority of Congress to investigate and to subpoena necessary documentary information in the course of an investigation. The subcommittee's investigation is within the broad jurisdiction vested by the House in the Government Operations Committee and, in turn, by the committee in its subcommittee. Finally, the lower federal court decisions cited by American Invsco which narrowly construe the jurisdiction of the Senate Committee on Government Operations are not applicable to the House Committee on Government Operations.

The subpoena calls for the production from American Invsco of five categories of documents:

1. For each building converted from 1975 to date:
  - a. operating costs and revenues produced from the building as a rental property prior to conversion;

- b. purchase price of acquired buildings, expenses of conversion and revenues from sell out of building.
- 2. Names and addresses of purchasers of two or more apartment units in Invsco converted buildings.
- 3. Terms of commercial leases and management and recreation agreements.
- 4. Law suits brought against or governmental actions concerning American Invsco converted buildings.
- 5. Documents reflecting the financing, acquisition and conversion of the Promenade.

Although the company is creating an elaborate appearance of cooperation by submitting boxes of documents, and is in fact supplying some documents called for in the subpoena, it adamantly refuses to supply any documents set forth in category 1. b. above.

Even as to categories of documents which have been supplied in part, its submissions have been selective and sanitized. The documents furnished are not the kind of internal documents submitted to the New York Attorney General in response to its subpoena of American Invsco. Much of what American Invsco has supplied is public information. Some of it is not responsive to the subpoena. Thousands of pages of brochures, Xeroxed property reports and appraisals are of little relevance to our concerns.

Much of what we need most is being withheld. For example, Invsco has supplied documents purporting to show the operating costs and revenues from rental buildings prior to conversion. These documents, representing several hundred Xerox pages, provide incomplete information. In contrast, a single 10-page document furnished to the New York Attorney General for Plaza 400 in New York contains not only all of the relevant rental information, but also the purchase, conversion and sell-out financial data called for in our subpoena.

The point here is that if Invsco had chosen to comply in good faith with the subpoena, it could have done so with minimal cost and effort.

Invsco has unilaterally determined that certain information is "too sensitive" for disclosure, to a congressional subcommittee even after the issuance of a subpoena, and even after an understanding was reached that subpoenaed documents would not be made public without a vote of the subcommittee. For example, instead of supplying the acquisition and other documents called for in category five above, American Invsco unilaterally decided that documents "relating to negotiations" should not be supplied. (Arnold & Porter letter 10/30/80, p. 10.) Instead of supplying the names called for in paragraph 2 of the subpoena, we have been provided with "profiles" and sanitized documents. The computer printout supplied just last Friday, November 14, contains serious omissions. It omits the names of certain individuals where there is evidence to believe that these individuals own units in various Invsco conversions. The printout is also in a form which makes it exceedingly difficult to ascertain the names of individuals who speculate in more than one apartment.

C. Subpoenaed Documents Dealing With Prices Paid for Properties and the Expenses and Receipts of Conversion are Essential to the Subcommittee's Investigation

An issue of central importance to the subcommittee's investigation is the impact of conversions on housing inflation. The Federal bank regulatory agencies and the federally chartered and insured financial institutions play a dominant role in the funding of conversions. Other Federal agencies have responsibility for dealing with the issue of housing inflation.

Project-by-project financial data showing prices paid for properties and expenses and receipts of conversions are necessary to answer the following questions:

— What part do conversions play in housing inflation? The housing component of the consumer price index presently excludes condominium prices. The subcommittee needs to know how the cost of condominium and cooperative ownership are rising relative to other housing costs.

— To what extent do sales to speculator-investors contribute to the costs of condominium home ownership?

— To what extent does the purchase of large blocks of apartment units in Invsco buildings, by American Invsco principals, insiders and family members, for speculation-investment purposes, contribute to the cost of condominium home ownership?

— What part do conversion expenses play in the price and cost of condominium units? In this regard, are conversion expenses overstated by converters so as to justify larger conversion loans? The subcommittee staff learned, for example, that many expenses claimed by American Invsco as conversion costs are payments made by one Invsco affiliate to another. How prevalent is this and how does it influence the size of conversion loans and the ultimate cost to the condominium purchaser?

We also need project-by-project expense and revenue data to understand how much is spent, for example, in fees to thrift institutions to provide financing and to understand how much is spent on sales commissions and legal fees as opposed to refurbishment expenses. One benefit often attributed to conversions is that the process rehabilitates or upgrades deteriorating dwellings. We need project-by-project expense data to support or refute this and to address the policy issues surrounding conversions.

In lieu of data that could answer these important questions, American Invsco has supplied aggregated data covering all conversion transactions for a single year.

D. Investigative Findings

- (1) Large numbers of condominium and cooperative units in converted buildings are purchased by investor-speculators at the time of conversion. Nicholas Souletas, members of his family and American Invsco insiders speculate heavily in the condominium conversion market through the purchase of large blocks of units in their own buildings.

The subcommittee's investigation to date reveals that, on the average, 30 to 40 percent of apartments purchased in converted condominium and cooperative buildings, are sold to speculator-investors, as opposed to owner-occupants.

In American Invsco buildings studied by the subcommittee, the percentage of speculator-investors is on the high side due, in part, to extensive speculative holdings by Invsco principals and insiders on their own behalf. The subcommittee's investigation has confirmed the finding by the Department of Housing and Urban Development in its own condominium study, that a total of 37 percent of all condominium and cooperative units are not owner-occupied with 19 percent in the hands of outside investors and 18 percent in the hands of the converting corporation. Other studies have estimated investor-speculator ownership at 20 to 30 percent in Chicago and at 50 percent in areas such as Florida.

The subcommittee's own investigation has uncovered the following:

-- A General Accounting Office examination, at the subcommittee's request, of American Invsco converted buildings in a number of cities throughout the country found large numbers of investor-speculators. For example, at a building in Dallas, Texas (21 Turtle Creek) of 200 units sold through October 30, 1980, 55 percent appear to have been purchased by speculators; at another Dallas building (Turtle Creek North) 45 percent of 104 units are apparently owned by speculators; at North View Towers in San Antonio, Texas, approximately one-third of sold units appear to have been purchased by investors; at Inwood Manor at Houston, 38 out of 74 units sold were apparently purchased by non-owner occupants; at the Harbor House in Chicago, approximately 20 percent of the originally converted units appear to have been sold to investors. And at one of the Grosvenor buildings in Rockville, Maryland, 186 units (or 45 percent of the total units) appear to have been conveyed to investor-speculators, not counting the 15 units still retained by the corporate developer.

- (2) The Gouletas family and American Invsco insiders own, in their own name, substantial blocks of units in almost every Invsco converted building.



In the Grosvenor Apartments, members of the Gouletas family own 10 units purchased for a total of \$597,300. These units are financed in the amount of \$448,550 by First National Bank of Maryland on short term mortgages due on May 1, 1982. In addition, Invsco officers and other employees own 16 unit, all but two financed by First National Bank of Maryland. The total purchase price for the officers and insiders is \$1,081,400 and the amount financed is \$837,550. Once again, the First National Bank of Maryland financing is relatively short term, with expiration dates in early 1983 for all insider loans. This pattern seems to indicate that the Gouletas family and the insiders purchased for relatively quick turn-over. The pattern of financing also raises the question of whether the lending institution is in compliance with the Community Redevelopment Act in making loans such as these.

At Georgetown of Philadelphia, a 270-unit condominium in a Philadelphia suburb, the Gouletas and American Invsco insiders purchased 11 apartments. At Galt Towers in Ft. Lauderdale, Florida, the Gouletas' and American Invsco insiders purchased 20 units, almost 10 percent of all the units in the building.

(3) There is substantial evidence that speculator-purchases of condominium housing units (a) contribute materially to housing inflation, (b) undermine the public policy purpose of the Federal Home Loan Bank System, which is designed to finance economical home ownership; and (c) conflict with Title 6 of the recently enacted Housing and Community Development Act of 1980, which seeks to discourage conversions that raise housing costs to and displace moderate and low-income families and other tenants.

— Speculator purchases of condominium units are a major contributor to inflation because (i) large blocks of apartment units are held off the market at the time of conversion, artificially reducing the supply of such

units; (ii) the large pool of speculator dollars available to purchase condominiums upon conversion, creates a demand for units that would otherwise not be available; (iii) the accelerated turnover rate of condos owned by speculators and motivated by a desire for quick profits, bids up the cost of these units; and (iv) speculator loans are made at higher interest rates, often involve fees or points to obtain such financing, and consequently raise the costs of units.

-- The inflationary impact of condominium and cooperative conversion on housing costs can be readily seen by comparing the rental costs of a unit with the post-conversion cost of the same unit in two American Invsco converted buildings:

(i) In an October 26, 1978, American Invsco internal document (obtained by subpoena from the New York State Attorney General) concerning Plaza 400 (a 628-unit, 40-story luxury building at First Avenue and 56th Street in Manhattan), the data contained in the annexed chart is set forth.

(ii) Subcommittee staff projections of differences in costs between renting and owning at the Promenade Apartments in Bethesda, Maryland, indicate even greater differentials. The building was purchased by American Invsco for approximately \$49 million and the projected sellout has been estimated between \$95 and \$100 million. Prior to conversion, a typical two-bedroom apartment at the Promenade rented for \$610 per month. The total monthly cost of owning this same apartment after conversion to cooperative status would be \$1,773 on a pre-tax basis, assuming an 85 percent 30-year mortgage at a sale price of \$127,000 at current market rates.

COMPARISON OF COSTS OF OCCUPYING A UNIT IN  
AN AMERICAN INVSCO BLDG. BEFORE AND AFTER CONVERSION 1/

APARTMENT TYPE	MONTHLY RENT	BEFORE-TAX POST-CONVERSION MONTHLY PAYMENT			AFTER-TAX POST-CONVERSION 2/ MONTHLY PAYMENT		
		MONTHLY OWNERSHIP COST	ADDITIONAL DOLLAR COST OVER RENT	PERCENTAGE INCREASE OVER RENT	MONTHLY OWNERSHIP COST	ADDITIONAL DOLLAR COST OVER RENT	PERCENTAGE INCREASE OVER RENT
Studio	\$ 473	\$ 728	\$ 255	+53%	\$ 523	\$ 55	+12%
1 Bedroom	643	1,128	485	+75%	818	175	+27%
2 Bedroom	938	1,667	710	+77%	1,203	265	+28%
3 Bedroom	1,225	2,042	817	+67%	1,482	257	+21%

1/ Based on a 10%, 25 year mortgage loan on 75% of sales price and assuming a 40% individual tax bracket.

2/ Does not factor income that could be earned by investing difference between rental and ownership costs.

(iii) Costs of private mortgage insurance are higher for investor-speculators than for owner-occupants. According to the September 28, 1979, mortgage commitment agreement between Invsco and Citibank and covering Plaza 400 in New York City, the cost of private mortgage insurance to the bank was stated as 2.1 percent for speculator purchases and 1.65 percent for elderly-occupants.

-- An indication that speculator activity can increase the cost and availability of mortgage credit is contained in a letter to the subcommittee from the State of Maryland's Banking Commissioner. He advised the subcommittee that Maryland restricts its State-chartered credit unions "to making loans to finance the acquisition of owner-occupied dwellings," because this has "some effect on the general availability of mortgage money in Maryland".

4. (a) The systematic purchase, for investment, of large blocks of apartments in American Invsco converted buildings by the Gouletas family and Invsco insiders, places American Invsco in a serious and direct conflict-of-interest position with outside purchasers of units in American Invsco buildings; and could constitute an unfair practice under the Federal Trade Commission Act or violate consumer protection laws of other Federal, State or local jurisdictions.

It is the opinion of the subcommittee staff that insider purchases may violate securities laws or constitute unfair trade practices.

First, block purchases by American Invsco insiders for investment, artificially restricts the supply of condominium units available for sale and very likely result in higher prices for those units.

Second, apartments held by American Invsco insiders adds substantially to the number of units occupied by renters in a given building. It is universally agreed by individuals and institutions associated with the housing market that the existence of large numbers of rental units in a condominium or cooperative building has a negative impact on the economic viability and success of that building: The Federal Home Loan Bank Board has stated, for example, that mortgage insurance is "seldom" provided to "non-owner occupied homes because of much higher default risks." This view is confirmed by policies and experiences of the private mortgage insurance industry itself. United Guaranty, a leading mortgage insurance company, declines to write insurance on mortgages issued to investor-speculators. USC states:

Our policy is to avoid insurance coverage of any residential loan where the borrower could be classed as investor-speculator. Our experience over the years in the field of evaluating risk in mortgage lending has led us to the opinion that non-owner-occupied loans are more hazardous. In the case of a condominium project, we should look upon the risk as being especially greater. If the project is successful, it should be sold out to homeowners. The appearance of speculators may indicate a weak project. If the

project is otherwise satisfactory, we would view the concentration of risk in one buyer as being too great. We have occasionally observed an investor-speculator taking more than one unit and we would view this as too great a risk in one credit. (October 30, 1980 letter to Hon. Benjamin S. Rosenthal from W. L. Humphill, President and Chief Executive Officer).

Another major private mortgage insurer, Verex Corporation, informed the subcommittee that

We agree the default risk is higher for non-occupied properties.... The claims rate is much greater for non-owner occupied properties (3.7%) than for those occupied by the owner (0.84%). We compensate for the increased risk by lowering the maximum loan-to-value ratio on non-owner occupied properties, thus reducing our exposure and the risk element.

Other companies discourage insuring the mortgages of investors by charging higher premiums or requiring a larger down payment than for owner-occupants.

The Veterans Administration looks with similar disfavor on condominium buildings having a large number of investor-speculators. VA Administrator Max Cleland advised the subcommittee by letter dated October 28, 1980:

Since we feel that occupancy purchasers probably make for a sounder more valuable condominium development, we count multiple unit purchases by an investor as only one sale for the purpose of meeting any VA pre-sale requirement. This prevents a development having a large number of units purchased by non-occupant investors from qualifying for VA guaranteed loans until such time as the number of owner-occupant units is increased to allow the development to meet the VA pre-sale requirement.

In recognition of the greater risk inherent in non-owner-occupied buildings, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation decline to purchase mortgages for sale in the secondary market in buildings containing more than 20 percent investor speculators. Similarly the Federal Housing Administration permits occupant-mortgagors to "receive more favorable treatment in that he is eligible for a larger mortgage...".

The State of Maryland prohibition against mortgage loans, by State-chartered credit unions to investors is predicated on the belief that "this was done to ensure the soundness of the credit unions' portfolio".

A substantial number of savings and loan institutions refuse to extend mortgage money to investors because of safety and soundness considerations. In the State of New Jersey, a savings and loan association (Investors Savings and Loan Association) brought suit in the Superior Court of New Jersey to foreclose a mortgage based on a mortgagor's false statement that he would occupy a premises financed by the Association. In finding for the plaintiff, the Superior Court stated:

Plaintiff states by affidavit that historically the purpose of a savings and loan association has been to assist persons in acquiring a home in which to reside and that this has always been plaintiff's policy. Plaintiff contends that from its experience non-occupying owners tend to restrict and to minimize property maintenance and upkeep in order to enhance their financial return. Plaintiff argues that such conduct leads to an unreasonable depreciation of the property and jeopardizes the security on which the loan was made.

The Colorado Commissioner of Savings and Loan advised the subcommittee by letter dated November 3, 1980, that 25 percent of its thrift institutions refuse to make "non-owner occupied condominium loans. It appears that Colorado State-chartered associations generally have taken a restrictive attitude to non-owner occupied condo loans."

In a recent article entitled, "Condo-Landing" (July 1980 Mortgage Banker) it is stated that:

A major concern of condominium lenders has been the number of condominium owner-investors who purchase a condo in order to rent or resell the unit. There is a definite difference in attitude between the owner of a unit and a renter. The resale value of condominium units may be adversely affected. A potential buyer who intends to occupy the condo as a primary residence may find the project less attractive if there are a large number of renters.

In short, because buildings with large numbers of investors are generally regarded as less safe and less economically valuable, American InvSCO purchases of blocks of apartments in its own buildings for investment purposes and its sale of such investment units to outsiders, depreciates and undercuts the value of those buildings, after conversion, to its owner-occupant-customers.

4. (b) The Securities & Exchange Commission's Enforcement Division is Studying Possible Violations of the Securities Laws by American Invsco.

The staff has been informed that the SEC's enforcement division is studying the facts and circumstances surrounding American Invsco's sales of securities in cooperative corporations. The securities laws require registration and disclosure for sales of securities, but the Supreme Court has held that these laws are not applicable where stock is sold together with the right to reside in a coop and not for investment purposes.

In the case of at least two Invsco properties, evidence exists that at least a certain percentage of the coop units were set aside for sale to investors. There is also evidence that the methods of sale and subsequent resale practices indicate an intent to sell to investors.

The SEC has informed the staff that the matter has been turned over to the Enforcement Division.

(5) Federal Home Loan Bank Board regulations, which are designed to restrain speculation in the condominium marketplace and assure truthfulness on mortgage loan applications, have been systematically violated in the case of mortgage loan applications for units in American Invsco converted buildings and, very likely, in other buildings as well. For example,

— Substantial evidence exists that a significant percentage of certification of intention to occupy units in Invsco buildings are false — a violation of 18 U.S.C. 1014 (the "False Statements Act") which provides penalties of a \$5000 fine and/or imprisonment for not more than 2 years for an individual "...who knowingly make any false statement or report to any institution the accounts of which are insured by the FSLIC..."

The Federal Home Loan Bank Board recently examined the loan files of individuals who the subcommittee believed to be investor-owners of



units of the Grosvenor at Rockville, Maryland. The Bank Board confirmed numerous instances "where it appears that the borrower will not occupy the unit even though he indicated that he would."

In addition to violating Federal law, such false statements of intention to occupy a premises also violate State laws, the lending policies of many savings and loan associations and the practices of private mortgage insurance companies. As indicated above, a New Jersey thrift institution foreclosed a mortgage because of such a false statement. Similarly, Mortgage Guarantees Insurance Corporation cancelled <sup>the</sup> mortgage insurance on eight loans because the mortgagor stated falsely that he intended to occupy each premises.

-- Substantial evidence exists that a large number of mortgage loans by Federally chartered thrift institutions, for units in American Invsco buildings, violate the FHLBB'S 80 percent loan-to-value limit on units purchased by investor-speculators. For example, Bank Board examiners discovered a number of such violations in its examination of loan files for Grosvenor apartments. Moreover, information developed by the General Accounting Office for the subcommittee uncovered evidence of extensive violations of the 80-percent limitation in Invsco buildings across the country: In Carriage Hill (Columbus, Ohio) 25 out of 55 speculator-owners (45 percent) appear to have mortgage loans in excess of the permissible 80 percent loan-to-value ratio. At the Harbor House (in Chicago) it appears that 13 out of 55 investor-speculators had mortgage loans above the 80 percent FHLBB ceiling.

-- Substantial evidence exists that investor-applicants for mortgage loans at federally-chartered and insured financial institutions, have failed to properly disclose real estate loans covering other property held for investment. Such false statements violate the False Statements Act.

(6) FILMC and FNMA standards, which prohibit the purchase of mortgages for sale in the secondary market when more than 20 percent of a condominium or cooperative building is investor owned, have been violated in American Invsco and in other buildings.

FNMA purchased mortgages in at least two American Invsco buildings where, based on information supplied by the General Accounting Office, more than 20 percent of the units appeared to be investor-owned. In Park IV and V Buildings (in Houston) 60 out 148 sold units appear to have been purchased by investor-speculators (40 percent). In 21 Turtle Creek (Dallas) 55 percent of the units appear to have been sold to speculators subsequent to conversion. In both instances, the 20 percent investor limit has been exceeded.

Purchases by the Federal Home Loan Mortgage Corporation of Grosvenor mortgages may also be in violation of the 80-percent owner-occupant warranty given by thrift institutions, because the ratio of investors to owner-occupants appears to be above the limit in at least one of the Grosvenor buildings.

7. (a) Speculative purchases of converted and new condominium and cooperative units, including those of the Gouletas family and other Invsco insiders, undermine the public policy purposes of the Federal and State thrift banking system by absorbing large amounts of mortgage money during periods of high interest rates and limited mortgage credit.

As briefly discussed above, the basic purpose of the Federal and State thrift system (savings and loan associations and similar financial institutions) is to finance the purchase of housing to be used as a principal place of residence for the purchaser. It was not designed to provide mortgage debt for speculator-investors. While more often than not, speculator mortgages are merely discouraged and not prohibited, some financial institutions (like those discussed earlier in Colorado and New Jersey) have a strict policy against speculator mortgages. It is clear, however, that the extension of mortgage credit to speculator-investors

is not favored by many governmental and private sector entities at the Federal, State and local level.

Accordingly, the application for and the extension of large amounts of mortgage credit to the Gouletas family, to American Invsco insiders, and to other speculator-investors, is contrary to prudent mortgage lending practices. In some instances, it may also violate the laws or policies of governmental bodies and private financial mortgage insurance entities.

On the basis of a limited review of data, the subcommittee investigation has already discovered that members of the Gouletas family and Invsco insiders have mortgages on the following buildings in the following amounts:

<u>Building</u>	<u>Mortgage Amounts</u>
Georgetown of Philadelphia	\$ 377,950
Grosvenor of Rockville, Md.	597,350
Parklane of Denver	129,550
Turtle Creek North of Dallas	122,700
North View Tower, San Antonio, Texas	102,175
Embassy House, Denver	83,350
Cheesman Tower West of Denver	198,400
Salt Towers of Ft. Lauderdale	1,139,300
Royal Ambassador of Ft. Lauderdale	<u>976,800</u>
TOTAL	\$3,727,525

Invsco principals and insiders have additional mortgage debt involving other American Invsco buildings throughout the country.

7. (b) Blind trusts may account for additional mortgage debt to the Gouletas family and Invsco insiders.

Approximately \$16 million of mortgage debt is allocated to the various blind trusts "owning" apartments in 11 of the Invsco converted buildings in Chicago. At this time, the beneficial owners of many of those trusts are not

1989

25

known. However, there is reason to believe that many of the trust beneficial owners are Invsco principals and insiders.

In various conversions undertaken by American Invsco in Chicago, large numbers of apartments in each building are owned by a single blind trust:

In 2400 Lakeview, 41 units are owned by American National Bank Trust #32452.

In One East Schiller, 41 units are owned by American National Bank Trust #32789.

In Burton Place, 13 units are owned by American National Bank Trust #32170.

In 4800 Lake Shore Drive, 48 units are owned by American National Bank Trust #42679.

In 336 Wellington, 26 units are owned by American National Bank Trust #77855.

In Sheridan Shores, 35 units are owned by American National Bank Trust #41091. In addition, in this building 21 units are owned by American Invsco Corporation.

In 70 East Scott, 12 units are owned by LaSalle National Bank Trust #38947.

It should be noted that almost all of the units owned by the above named blind trusts are financed by lending institutions regulated by the Federal Home Loan Bank Board or the Federal Savings and Loan Insurance Corporation. We have been advised that the blind trust form of ownership in Illinois often presents bank examiners with problems in measuring thrift institution adherence to federal bank law and regulation. The staff wants to pursue these issues and the additional question of adherence to the Community Reinvestment Act by lending to the blind trusts listed above.

(8) Buildings converted by American Invsco are generally profitable as rental properties. This refutes the frequently voiced belief that the conversion trend is exclusively a product of rent control laws and other factors which make rental properties unprofitable ventures.

Paragraph 3 (a) of the committee's subpoena requires American Invsco to furnish documents showing "the cost of and revenues from" the rental properties purchased and converted by Invsco. Although the data furnished by American Invsco pursuant to the subpoena is incomplete and does not constitute substantial compliance, the subcommittee staff was able to determine that Invsco converted buildings are generally profitable as rental properties.

For example, an internal Invsco memorandum obtained by the subcommittee through subpoena to the New York Attorney General indicates that as a rental property Plaza 400 produced an annual "Net Cash Flow" of more than \$1 million. Effective annual gross income for this property was \$6.223 million; total expenses were \$3.75 million; land lease payments were \$650,000; and debt service amounted to \$1.95 million.

In the case of Promenade in Bethesda, Maryland, the subcommittee staff has been able to determine that the building was operated at a before-tax profit of more than \$1 million per year. Operating expenses and debt service at the Promenade totaled about \$4.5 million a year. Income totaled approximately \$5.5 million a year.

(9) The Federal Home Loan Bank Board's compliance and examination procedures designed to assure compliance, by member financial institutions, with Board regulations and requirements regarding speculator activity and truthful statements on loan applications, are totally inadequate.

During the course of its investigation, the subcommittee staff uncovered numerous instances of false statements, by mortgage loan applicants, of intention to occupy a premises; of mortgage loans to speculators in excess of the 80 percent loan to value ratio; of failure to report mortgage debt on other investor properties; and, purchases, by the Federal Home Loan Mortgage Corporation, of mortgages in buildings containing more than 20 percent investor units.

Some of these findings were reported to and confirmed by the Bank Board. Nevertheless, in other instances, the Bank Board was not able to confirm information available to the subcommittee because its ability to examine compliance by mortgage applicants and recipients is generally limited to the loan file itself. For example, the subcommittee reported to the Bank Board the names of a large number of investors in units in the Grosvenor Apartments in Rockville, Maryland. The Bank Board, in response, reported that 48 of the named individuals actually resided at the Grosvenor. Through written and oral communication, the subcommittee was able to demonstrate to the Bank Board that the loan files were inaccurate and that these individuals were investors who resided at places other than the Grosvenor.

It is clear from our investigation to date, that the Bank Board must adopt stringent new requirements in order to insure that its mortgage loan regulations and loan application requirements are complied with by member financial institutions.

(10) The Council on Wage and Price Stability has systematically failed in its statutory responsibility to (a) study inflationary trends in the housing marketplace and (b) enforce compliance with its profit-margin guidelines by real estate developers such as American Invsco.

In an October 1, 1980, memorandum to the subcommittee from the American Law Division, Library of Congress, the ALD confirmed the mandate of the Council, "to deal with the housing industry or real estate development firms...".

That opinion was confirmed in discussions with the General Counsel of COMPS. In a September 19, 1980, letter to subcommittee Chairman Rosenthal, the Director of the Council acknowledge that "the Council has not studied the inflationary impact of condominium and cooperative conversions." The COMPS Director stated that, "This does not mean that the Council is not concerned about the effects of inflation in the housing market. We continue to monitor prices in this area, particularly building materials prices."

It is the subcommittee's staff conclusion that COMPS has failed to enforce not only its profit-margin guidelines with respect to American Invsco and similar companies, but its reporting requirements as well.

A company is subject to the Council's mandatory reporting requirements if it has annual sales in excess of \$100 million. Documents submitted to the subcommittee by Invsco state that for the year ending November 30, 1979, their sales were substantially over the reporting threshold. Accordingly, Invsco should be reporting to COMPS but, apparently, has not done so.

However, even if Invsco's annual sales were below the \$100 million threshold reporting requirement, the company would still be subject to the Council's profit-margin guidelines. While the subcommittee staff is unable, without additional data from Invsco, to determine the company's compliance with the Council's guidelines, there is some evidence that components of Invsco's complex

financial empire may be out of compliance with the guidelines. An affidavit submitted to the subcommittee by a senior vice-president of American Invsco Corporation, Joseph T. Low, states that a subsidiary of Invsco increased its profit approximately 1,800 percent from fiscal year 1978 to fiscal year 1979. This may be due, in part, to an increase in the volume of business that this subsidiary transacted during this period. The COMPS guidelines allow for "fiscal volume" increases and concomitant profits; but substantiation in the case of possible violation must be undertaken. The subcommittee needs to know the number of units sold, the expenses of sales and the prices at which they were sold -- in order to determine the significance of profit increases such as the one mentioned above. Invsco has refused to provide this information to the subcommittee even though it is called for by the subpoena.

Although the usual method of reporting to COMPS is on a company-wide basis, the Council is authorized to examine disaggregated data where necessary. For example, the Council received information that a hotel chain might be out of compliance with the guidelines. The Council requested the company to provide financial figures for each hotel separately so that it could determine which units were in compliance and which were not. The COMPS guidelines require that all data be "sales weighted". The profit margin of any hotel, for example, is pro-rated as a percentage of the chain's entire revenues. It is possible therefore, for one or two hotels in the chain to be out of compliance without the chain itself being out of compliance.

In the present situation, the subcommittee, in evaluating COMPS performance, must be able to determine whether some of the buildings converted by Invsco might be out of compliance with the guidelines; or whether American Invsco's profits, in their entirety might exceed the guidelines.



(11) American Invsco's announced policy at the Promenade, not to sell apartment units to investors, appears to have been systematically violated by the company.

In a September 26, 1980, letter to subcommittee Chairman Rosenthal from Arnold and Porter (one of Invsco's law firms), it is stated that "the company's policy with respect to the Promenade has been and is at present to sell only to individuals who intend to reside in the building. This policy is reflected in the purchase agreement in which the purchaser 'irrevocably agrees to become an occupant of the apartment'."

Notwithstanding this commitment, documents available to the subcommittee demonstrate that purchase agreements have already been accepted by Invsco from its own employees and their family members who are unlikely to be residing at the Promenade. While the subcommittee staff cannot determine with absolute certainty, at this time, that these individuals will not be living at the Promenade, the staff does know that several of these Invsco insiders own large numbers of apartments in Invsco converted buildings throughout the country. It is self-evident that each of these apartments cannot be used as a principal place of residence.

Moreover, profiles of individuals who have completed purchase agreements or have closed units at the Promenade -- furnished by Invsco -- indicate that sales have been made or are contemplated to investors. For example, a number of individuals have purchased two non-adjacent units in the building. Other perspective purchasers reside in other cities and in one instance in another country, Kuwait. In other instances sales have been made to foreign nationals.

For example, the public records of land transactions for The Park Lane II, a Denver, Colorado, Invsco conversion, shows the purchase of one or more units for a total price of \$382,400 by Immobiliere Tirana, SA, a Panama Corporation with an address in Geneva, Switzerland. In the case of the Invsco conversion of 400 East 56th Street in New York, there is also evidence of intent to sell multiple units to foreign nationals.

Finally, the mortgage commitment letter entered into by American Invsco with Washington Federal Savings and Loan sets aside funds for "investors". (A June 12, 1980, letter from Invsco to Washington Federal demonstrates sensitivity toward the term "investor". Paragraph number one of the letter states "All references in the Commitment and the Warehousing Letter to the term 'investor' are hereby deleted and the term 'delayed owner occupant' is hereby substituted therefore.").

(12) The subcommittee investigation uncovered a number of instances in which mortgage loans to individuals exceeded the apparent cost of apartment units in American Invsco buildings.

The subcommittee is not in a position at this time to determine the accuracy of this General Accounting Office-furnished information. We intend to ask the Federal Home Loan Bank Board to examine these loans.

(13) Transactions involving at least one former public official should be referred to appropriate law enforcement officials.

Based on a review of public records, at least three units in Invsco converted buildings were conveyed to Thomas M. Tully, the former Cook County (Chicago) tax assessor. According to the Chicago Tribune, Mr. Tully is under investigation by the U.S. Attorney for the Northern District of Illinois for possible wrongdoing

in connection with his activities as tax assessor. The Chicago Tribune series contain allegations that Mr. Tully engaged in real estate deals with property developers for whom Tully's office allegedly cut taxes while Tully was assessor. See Chicago Tribune series by Chuck Neubauer, May 11, 14, 15, 1980 (p. 1) and May 18, 1980, p. 8.

— By deed dated March 13, 1980 (and filed with the Montgomery County Clerk's Office on July 9, 1980), an American Invsco affiliate, Rockville Grosvenor, Inc. deeded Unit 409 in Grosvenor II condominium to Thomas M. Tully. The stated consideration is \$81,850. By deed dated Nov. 7, 1979 (and also recorded on July 9, 1980), Rockville Grosvenor, Inc. conveyed to "Joseph V. Roddy and Reverend John P. Seyth as Trustees Under Trustee T-74" for a stated consideration of \$118,000. Subsequent investigation determined that neither of these units were financed. Mr. Tully acknowledged in a telephone interview that he is the beneficial owner of the Roddy-Seyth trust. In addition, Mr. Tully acknowledged that he is the record owner of units in other Invsco buildings. Although he refused to disclose the number and location of such units, the staff was able to identify from other sources one of the other units, Unit 16 in Inwood Manor, an Invsco conversion at 3711 San Felipe, Houston, Texas.

In addition to the above transactions, public records disclose that Joseph V. Roddy, who is Mr. Tully's law partner, is the record owner of several other units in Invsco converted buildings. Mr. Roddy is listed as the owner of the following:

— Unit 9U in Galt Towers, Ft. Lauderdale, Florida; conveyed in December, 1978; listed consideration \$86,600; financed by Amalgamated Trust and Savings Bank of Chicago, \$77,940.

-- Unit 8F in Turtle Creek North, Dallas, Texas; no consideration listed; financed by Amalgamated Trust and Savings Bank of Chicago, \$87,930.

-- Unit 2506 in Imperial Towers, 4250 N. Marine Drive, Chicago, Ill.; consideration \$49,500; financed by Amalgamated Trust and Savings Bank of Chicago, \$44,100.

-- Unit 1633 in Imperial Towers, 4250 N. Marine Drive, Chicago, Ill.; consideration \$29,500; financed by Amalgamated Trust and Savings Bank of Chicago, \$26,236.

The subcommittee has been unable to determine if Mr. Roddy owns the above units in his own behalf or in a trustee capacity for Mr. Tully. However, a computer printout supplied by American Invsco (see below) lists the owners of Units 8F in Turtle Creek North and Unit 9U in Galt Towers as "Thomas Tully." This would indicate that Roddy units may in fact be held for the benefit of Mr. Tully.

In response to the subpoena, American Invsco furnished the subcommittee with a computer printout of names purporting to contain the "names and addresses of all its customers." (Arnold & Porter letter dated 11/30/80, p. 4) An examination of this list reveals that the names of Thomas Tully, Joseph V. Roddy, and Reverend John P. Seyth are not contained in any Grosvenor listing. In other respects, the list supplied does not conform to the description: "names and addresses of all its customers." There are a substantial number of omissions and erroneous entries.

1398



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Washington, D.C. 20540

November 14, 1980

TO : House Subcommittee on Commerce, Consumer and Monetary Affairs  
Attention: Peter Barash

FROM : American Law Division

SUBJECT : Reply Brief to Arnold & Porter Brief

At the request of the Subcommittee, a reply brief has been prepared and is enclosed. The reply brief addresses the major argument raised in the brief submitted to the Subcommittee by Arnold & Porter in response to the Subcommittee's subpoena of various documents from American Inesco Corporation, i.e., that the Subcommittee lacks jurisdiction to investigate the condominium conversion process and the role of various Federal agencies in the regulation of this process. The reply brief that we have prepared emphasizes arguments that an advocate for the Subcommittee might use to counter the Arnold & Porter brief.

*Jay R. Shampansky*

Jay R. Shampansky  
Legislative Attorney

CONFIDENTIAL

1399

REPORT ON BEHALF OF THE SUBCOMMITTEE ON COMMERCE, CONSUMER  
AND MONETARY AFFAIRS OF THE HOUSE COMMITTEE ON  
GOVERNMENT OPERATIONS

I. The Congress Has Clear Constitutional  
Authority to Investigate and to Sub-  
poena Documentary Information in the  
Course of an Investigation

In the landmark case of McGrain v. Daugherty, 273 U.S. 135, 174 (1927), the Supreme Court recognized that "the power of inquiry—with process to enforce it—is an essential and appropriate auxiliary to the legislative function." The Court continued, id.: "It was so regarded and employed in American legislatures before the Constitution was framed and ratified. Both Houses of Congress took this view of it early in their history—the House of Representatives with the approving votes of Mr. Madison and other members whose service in the convention which framed the Constitution gives special significance to their action—and both Houses have employed the power accordingly up to the present time." The McGrain case involved a challenge by Mallie Daugherty, the brother of the Attorney General and an Ohio banker, to a subpoena issued by a Senate committee investigating the alleged failure of the Attorney General to prosecute violations of the anti-trust laws. In upholding the subpoena, the Supreme Court observed, 273 U.S. at 174-75:

A legislative body cannot legislate wisely or effectively in the absence of information respecting the conditions which the legislation is intended to affect or change; and where the legislative body does not itself possess the requisite information—which not infrequently is true—recourse must be had to others who do possess it. Experience has taught that mere requests for such information often are unavailing, and also that information which is volunteered is not always accurate or complete; so some means of compulsion are essential to obtain what is needed. All this was true before and when the Constitution was framed and adopted. In that period the power of inquiry—

with enforcing process—was regarded and employed as a necessary and appropriate attribute of the power to legislate—indeed, was treated as inhering in it. Thus there is ample warrant for thinking, as we do, that the constitutional provisions which commit the legislative function to the two houses are intended to include this attribute to the end that the function may be effectively exercised.

Mr. Chief Justice Warren, speaking for the Court in Watkins v. United States, 354 U.S. 178, 187 (1957), stated:

The power of Congress to conduct investigations is inherent in the legislative process. That power is broad. It encompasses inquiries concerning the administration of existing laws as well as proposed or possibly needed statutes....It comprehends probes into departments of the Federal Government to expose corruption, inefficiency, or waste.

And in Barenblatt v. United States, 360 U.S. 109, 111 (1959), the Court declared that "the scope of the power of inquiry...is as penetrating and far reaching as the potential power to enact and appropriate under the Constitution."

The investigation by the Subcommittee on Commerce, Consumer and Monetary Affairs in the present case is well within the constitutional authority of Congress recognized in the leading Supreme Court decisions quoted above. The Subcommittee is seeking "to evaluate the effectiveness and impact of relevant Federal agency programs and operations on the condominium and cooperative market..." Memorandum from Subcommittee Chairman Benjamin S. Rosenthal to all Subcommittee Members, September 29, 1980, at 3. As part of its investigation, the Subcommittee is studying case histories of selected condominium and cooperative conversions. Some of these case studies involve projects of American Invesco Corporation, which is the nation's largest converter of multifamily units to condominium and cooperative use. The Congress undoubtedly has a constitutional right to oversee the administration of existing laws and regulations concerning condominiums and cooperatives by the executive branch, to determine whether new legislation is required, to conduct case studies in the course of its investigation and to subpoena the information it needs when that information is not voluntarily supplied.

II. An Investigation of the Effectiveness and  
Impact of Federal Agency Programs on the  
Condominium and Cooperative Market is  
Within the Jurisdiction of the Subcommittee  
On Commerce, Consumer and Monetary Affairs

The brief submitted on behalf of American Invesco Corporation (hereinafter, AIC brief) suggests at pp. 4-5 that although Congress may be able to investigate the condominium and cooperative market, the Subcommittee on Commerce, Consumer and Monetary Affairs lacks jurisdiction since its parent committee, the House Committee on Government Operations, allegedly has jurisdiction only to investigate the operation of government agencies and programs. Under this line of reasoning, the Subcommittee could review the administration of the laws by the executive branch only in the abstract. Although the Subcommittee could seek to determine whether, for example, the Federal Trade Commission is enforcing section 5 of the Federal Trade Commission Act (prohibiting unfair and deceptive acts and practices in or affecting interstate commerce), the Subcommittee, under such reasoning, would be prohibited from making case studies to determine the enforcement of section 5 by the FTC in regard to the sale of particular condominiums and cooperatives. Such reasoning is obviously erroneous and is not compelled by the Constitution, the leading Supreme Court decisions on the congressional power to investigate, or the relevant rules of the House of Representatives.

The House has granted to the Committee on Government Operations extremely broad legislative and oversight jurisdiction over the administration by the bureaucracy of Federal laws and regulations. The Committee has legislative jurisdiction over, inter alia, "the overall economy and efficiency of Government operations and activities, including Federal procurement." House Rule I, cl. 1(i)(2). The Committee has the related oversight function of "[reviewing] and



[studying], on a continuing basis, the operation of Government activities at all levels with a view to determining their economy and efficiency." House Rule X, cl. 2(b)(2). And, like other standing committees of the House, the Committee on Government Operations is directed by House Rule X, cl. 2(b)(1), to:

...review and study, on a continuing basis, the application, administration, execution, and effectiveness of those laws, or parts of laws, the subject matter of which is within the jurisdiction of... [the] committee and the organization and operation of the Federal agencies and entities having responsibilities in or for the administration and execution thereof, in order to determine whether such laws and the programs thereunder are being implemented and carried out in accordance with the intent of the Congress and whether such programs should be continued, curtailed, or eliminated. In addition, each such committee shall review and study any conditions or circumstances which may indicate the necessity or desirability of enacting new or additional legislation within the jurisdiction of that committee (whether or not any bill or resolution has been introduced with respect thereto)....

Additionally, the Committee on Government Operations is authorized by House Rule X, cl. 4(c)(2), to "at any time conduct investigations of any matter without regard to the provisions of clause 1, 2, or 3 (or this clause) conferring jurisdiction over such matter upon another standing committee." The Committee has granted to its Subcommittee on Commerce, Consumer and Monetary Affairs jurisdiction over the following agencies and entities: Department of Commerce, Federal Trade Commission, Consumer Product Safety Commission, Council on Wage and Price Stability, Export-Import Bank, Overseas Private Investment Corporation, Small Business Administration, Council of Economic Advisors, Council on International Economic Policy, Department of the Treasury, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Federal Reserve System, Federal Savings and Loans Insurance Corporation, National Credit Union Administration, United States International Trade Commission, Tax Court, Securities and Exchange Commission, and Commodity Futures Trading Commission.

Pursuant to the legislative and oversight jurisdiction granted to the Committee on Government Operations by the House in Rule X, cl. 1(1)(2) and

cl. 2(b)(2), the Committee clearly has authority to investigate the impact on the condominium and cooperative market of the administration of various rules and regulations by agencies and entities such as the Federal Home Loan Bank Board, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Council on Wage and Price Stability, the Securities and Exchange Commission, and the Federal Trade Commission. The rules and policies of the first three of these entities affect the availability of mortgage money for the purchase of condominiums and cooperatives. The Council on Wage and Price Stability has statutory authority to review the economy as a whole in order to evaluate the impact of various public and private policies on prices. There is substantial evidence which indicates that the conversion process has a significant impact on inflation in housing costs. The Federal Trade Commission is presently conducting an investigation of patterns of unfair and deceptive practices in the sale of condominiums and cooperatives. And in certain cases developers of cooperatives are required to file registration statements with the Securities and Exchange Commission because the purchasers of units in cooperatives are actually buying stock in a mutual corporation. The Committee on Government Operations undoubtedly has jurisdiction to investigate the "economy and efficiency" of the activities of these agencies as they affect the conversion process, and where jurisdiction over an agency has been granted to the Subcommittee on Commerce, Consumer and Monetary Affairs, the Subcommittee has jurisdiction.

Even if the Government Operations Committee did not have jurisdiction to investigate the impact of Government agencies on the conversion process pursuant to its legislative and oversight jurisdiction under House Rule X, cl. 1(1)(2) and cl. 2(b)(2), the Committee could investigate the conversion process pursuant to Rule X, cl. 4(c)(2). Because of its importance, cl. 4(c)(2) is set forth here again in relevant part:

...[T]he Committee on Government Operations may at any time conduct investigations of any matter without regard to the provisions of clause 1, 2, or 3 (or this clause) conferring jurisdiction over each matter upon another standing committee. [emphasis added]

American Invesco Corporation misconstrues this important clause, claiming that it "does not provide the Committee with any jurisdiction not provided in other parts of the House rules" (AIC brief at 5), and presents a selective and misleading reading of the legislative history of the provision. Clause 4(c)(2) was added to the House Rules by H. Res. 988, 93rd Cong. This resolution was adopted at the recommendation of the House Select Committee on Committees (the Bolling Committee). A primary goal of the Select Committee was to strengthen the oversight function of the House by, *inter alia*, "strengthening the principal oversight committee in the chamber: the Committee on Government Operations." Report of the Select Committee on Committees to accompany H. Res. 988, 93rd Cong., 2d Sess. (1974), H. Rept. 93-916, Part II (hereinafter cited as the Bolling Committee Report) at 39. The Select Committee sought to strengthen the oversight role of Government Operations in various ways. First, at the beginning of each Congress, the Government Operations Committee was directed to coordinate the oversight plans of all House committees for that Congress. This requirement is now embodied in Rule X, cl. 2(c). Second, all House committees, in reporting out any measure that they approve, are required to include summaries of any oversight findings and recommendations made by the Committee on Government Operations on the measure. House Rule XI, cl. 2(1)(3). Finally, the Select Committee sought, in cl. 4(c)(2), to make explicit the authority of Government Operations "to investigate programs and agencies that cut across committee jurisdictional [sic] lines...." Bolling Committee Report at 39. The contention that cl. 4(c)(2) confers no additional power on the Committee on Government Operations (AIC brief at 6) finds no support in the

legislative history of the clause. To the contrary, the Select Committee on Committees, in reviewing the additional authority (including the authority to conduct investigations that may be within the jurisdiction of another committee) vested in the Government Operations Committee by H. Res. 988, observed (Rolling Committee Report at 120):

The result is to substantially broaden the present jurisdiction of the Government Operations Committee with respect to oversight.  
[emphasis added]

The Select Committee's report also dispels the argument of American Inveco that the Subcommittee lacks authority to delve into the public policy implications of the condominium conversion process (AIC brief at 4). The Rolling Committee Report states at 120:

The [Government Operations] committee would no longer be limited to evaluating Government programs with respect to economy and efficiency only. Rather, its investigations can now extend to any matter including policy evaluation. [emphasis added]

Read in this light it is clear that although one of the purposes of the Select Committee was to coordinate the oversight activities of Government Operations with those of the authorizing, appropriating, and taxing committees, the changes made in the responsibilities of Government Operations were not intended as "merely" coordinative devices (AIC brief at 6). Nor is it correct that cl. 4(c)(2) granted Government Operations authority to conduct investigations cutting across committee jurisdictional lines merely because the resolutions providing investigative funds usually include the prohibition that such funds shall not be expended on investigations of matters being investigated by another House committee (AIC brief at 6-7). If that were the intent, an exception in favor of the Government Operations Committee could have readily been added to the funding resolutions, rather than granting Government Operations broad investigative authority in the rules of the House.

The fact that as a result of Rule X, cl. 4(c)(2), more than one committee of the House may have jurisdiction over the subject matter of the investigation is no defense to the party issued a committee subpoena. See United States v. O'Connor, 135 F. Supp. 590, 595 (D.D.C. 1955), rev'd on other grounds, 240 F.2d 404 (D.C. Cir. 1956). Nor does the fact that Congress has recently taken action (the Condominium and Cooperative Home Relief Act of 1980) relating to the subject of the Subcommittee's inquiry divest the Subcommittee of its jurisdiction. Quite obviously, Congress may at a later date consider further legislative action. And the Government Operations Committee has a continuing mandate from the House to study the operation and impact of existing laws.

In ascertaining the jurisdiction of a committee, a court may look at the investigations and other activities undertaken by the committee in the past to shed light on the meaning of the statutes and/or rules granting authority to the committee. A rule conferring certain jurisdiction on a committee is not to be read in isolation from its history in the House. Barenblatt v. United States, 360 U.S. 109, 117 (1959). The Court in Barenblatt observed, id.: "Just as legislation is often given meaning by the gloss of legislative reports, administrative interpretation, and long usage, so the proper meaning of an authorization to a congressional committee is not to be derived alone from its abstract terms unrelated to the definite content furnished them by the course of congressional actions." The history of investigations and activities of the House Government Operations Committee makes it clear that it is by no means uncommon for that Committee to conduct an investigation such as the present one by the Commerce, Consumer and Monetary Affairs Subcommittee. Numerous instances can be cited of probes by the Government Operations Committee into matters that might also be within the jurisdiction of other House committees but which are of concern to Government Operations because of the

involvement of Federal agencies. A few examples from the report of the Activities of the House Committee on Government Operations—Ninety-fifth Congress, H. Rept. No. 95-1821, 95th Cong., 2d Sess. (1978), are instructive. During the 95th Congress, the Government Operations Committee or its subcommittees investigated or studied the following matters: the nuclear fuel services plant at West Valley, New York, and the nuclear waste dilemma (p. 53); nuclear power costs (p. 56); airport travel insurance sales (p. 93); strip mining and flooding in Appalachia (p. 101); conversion of solar energy into electricity (p. 104); wind-past as a source of energy (p. 105).

Perhaps the most publicized recent investigation by the Subcommittee on Commerce, Consumer and Monetary Affairs of a matter cutting across committee jurisdictional lines that arguably involved private financial transactions, as well as governmental regulation thereof, was the collapse in the silver markets, and particularly the role of the Hunt brothers. See Silver Prices and the Adequacy of Federal Actions in the Marketplace, 1979-80, hearings before a Subcommittee of the Committee on Government Operations, House of Representatives, 96th Cong., 2d Sess., March 31, April 14, 15, 29, 30, May 2 and 22, 1980.

### III. The Lower Court Decisions Cited by American Invesco Are Not Applicable to the House Committee on Government Operations

American Invesco contends that "every court presented" with a claim of broad jurisdiction of the Government Operations Committee has rejected it (AIC brief at 7). To support this contention, two lower Federal court decisions are

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\* Page references are to H. Rept. No. 95-1821.

cited, United States v. Kamin, 136 F. Supp. 791 (D. Mass. 1956), and Brewster v. United States, 255 F.2d 899 (D.C. Cir.), cert. denied, 358 U.S. 842 (1958). Both Kamin and Brewster involved investigations by the Committee on Government Operations of the Senate, not of the House. (No reported judicial decision appears to have considered the jurisdiction relevant to the present matter of the House Government Operations Committee.) The grant of jurisdiction to the Senate Government Operations Committee considered in the decisions in Kamin and Brewster was much more limited than the broad jurisdiction presently vested by the House in its Government Operations Committee. The prosecution in both cases rested its claim of jurisdiction on section 102(1)(g)(2)(B) of the Legislative Reorganization Act of 1946, granting the Senate Government Operations Committee jurisdiction to study "the operation of Government activities at all levels with a view to determining its economy and efficiency." The Senate Government Operations Committee lacked the jurisdiction which the House Government Operations Committee presently has under Rule X, cl. 4(c)(2), to "conduct investigations of any matter without regard to the provisions of clauses 1, 2, or 3 (or this clause) conferring jurisdiction over such matter upon another standing committee."

Furthermore, both Kamin and Brewster are factually distinguishable from the present investigation being conducted by the Subcommittee on Commerce, Consumer and Monetary Affairs. The Subcommittee is evaluating "the effectiveness and impact of relevant Federal agency programs and operations on the condominium and cooperative market..." Memorandum from Subcommittee Chairman Benjamin S. Rosenthal to all Subcommittee Members, September 29, 1960, at 3. The Subcommittee has subpoenaed various documents from American Inveco to be used in the development of case histories of selected condominium and cooperative conversions so that the Subcommittee may determine in particular factual

contexts what impact the policies of the various Federal agencies within its jurisdiction have had on these conversions. Such an investigation is far different from that conducted in Emin, where the court concluded that the Senate Government Operations Committee was actually investigating Communist infiltrations into private defense plants, and the efficiency of these plants in preventing the infiltration of subversives. See 136 F. Supp. at 798, 799, 804. The Subcommittee's investigation is also distinguishable from that in Brewster, where the witness, a labor union official, refused to answer questions concerning the misuse of union funds and concealment of such misuse in reports required to be filed with the Labor Department pursuant to the Labor Management Relations Act of 1947. It was argued that the requirement that unions file such reports and the grant of income tax exemptions to labor organizations constituted Government activity, the economy and efficiency of which the Committee was investigating. However, the Court of appeals had "grave doubts that, merely because unions are required to file reports, their activities or the misuse of their funds or the concealment of such use become 'Government activities.' We would have the same doubts about whether the requirement that corporations file tax returns makes all corporate affairs 'Government activities.'" 253 F.2d at 901. Obviously, the agencies over which the House Committee on Government Operations has jurisdiction more directly affect condominium developers than the Labor Department in Brewster affected unions by collecting their reports. For example, rules and policies of the Federal Home Loan Bank Board, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association have a significant effect on the availability of mortgage money for the purchase of condominiums and cooperatives. Obviously, the availability of mortgage money determines the viability of any proposed conversion. Also, the court in Brewster may well have been influenced by the fact that the Senate itself in



that case "strongly indicated its belief that the Committee on Government Operations was without power to conduct [that] inquiry." 255 F.2d at 902 n.7. The Senate, when confronted with the matter of whether Government Operations should have jurisdiction over that inquiry, apparently decided that it should not, choosing to create the Select Committee on Improper Activities in the Labor or Management Field to investigate criminal and other improper labor and management activities. Id.

#### Conclusion

The probe being conducted by the Subcommittee on Commerce, Consumer and Monetary Affairs into the impact and effectiveness of Federal agency programs on the condominium and cooperative market is clearly within the well-established constitutional authority of Congress to investigate and to subpoena necessary documentary information in the course of an investigation. The Subcommittee's investigation is within the broad jurisdiction vested by the House in the Government Operations Committee and, in turn, by the Committee in its Subcommittee. Finally, the lower Federal court decisions cited by American Isvac which narrowly construe the jurisdiction of the Senate Committee on Government Operations are not applicable to the House Committee on Government Operations.

1411

WILLIAM M. BRODHEAD  
CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C. 20515  
THE CONGRESSMAN  
TELEPHONE (202) 225-2271

SENATOR  
4201 Grand Plaza Avenue  
Detroit, Michigan 48226  
Telephone (313) 837-1400

October 21, 1980

Honorable Benjamin Rosenthal, Chairman  
Subcommittee on Commerce, Consumer,  
and Monetary Affairs  
House Government Operations Committee  
Washington, D.C. 20515

Dear Ben:

I understand that the Subcommittee is now investigating the activities of American Invsco in the field of condominium conversion. This is a matter of deep interest to me.

I have recently heard from one of my constituents about this company's activities in the Congressional District I represent. He expressed concern about the company's business practices and its treatment of tenants in the building it has bought for conversion. I have enclosed a copy of the portion of my constituent's letter that deals with this subject.

I wanted to let you know of my support for the Subcommittee's work, which I hope will lead to a thorough consideration not only of this particular matter but of the important subject of condominium conversion which is having so profound an effect on so many citizens.

Thank you for your consideration in this matter.

Sincerely yours,

*Bill Brodhead*  
William M. Brodhead  
Representative in Congress

WMB/abd  
Enclosure

CONGRESSMAN BEN ROSENTHAL	
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 THOMAS L. ARDREY, EDMS  
 WILLIAM S. BISHOP, MDL  
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U.S. HOUSE OF REPRESENTATIVES  
 COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

FORTY-SIXTH CONGRESS  
 515 RAYBURN HOUSE OFFICE BUILDING  
 WASHINGTON, D.C. 20515

October 15, 1980

WALTER H. JACOBS:

The enclosed letter was also sent to the  
 Federal Reserve Board, Comptroller of the Currency,  
 Federal Deposit Insurance Corporation, and the  
 National Credit Union Board.

Honorable Jay Janis  
 Chairman  
 Federal Home Loan Bank Board  
 Washington, D. C. 20532

Dear Chairman Janis:

Last week the President signed into law the Housing and Community Development Act of 1980. Among the many significant and far-reaching provisions affecting the growth and economic welfare of homeowners is a provision which demonstrates the real concern Members of Congress have regarding those who are unable to afford the increased housing costs due to condominium conversion. The provision reads as follows:

"Sec. 603. It is the sense of the Congress that lending by federally insured lending institutions for the conversion of rental housing to condominiums and cooperative housing should be discouraged where there are adverse impacts on housing opportunities of the low- and moderate-income and elderly and handicapped tenants involved."

Important questions now arise:

1. How do you intend to discourage financial institutions from lending for a conversion which will have adverse impacts on the low- and moderate-income, elderly, and handicapped?
2. How do you intend to inform civic, religious and neighborhood organizations of the Congressional action so that they may rely upon it to dissuade a socially undesirable conversion?
3. Finally, what necessary action do you intend to take to assure that section 603 is being implemented by the financial institutions under your jurisdiction?

Frederick A. St. Germain  
 Chairman, Subcommittee on  
 Financial Institutions,  
 Regulation, and Insurance

Sincerely,

Henry S. Reuss  
 Chairman

1413

**United States Senate**

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MEMORANDUM

11/12/80

FYI:

THE ENCLOSED LETTER WAS  
SENT TO JAY JANIS, FHLEB;  
IRVINE SPRAGUE, FDIC; PAUL  
VOLCKER, FEDERAL RESERVE;  
AND JOHN HEIMANN, COMPTROLLER  
OF THE CURRENCY.

BEST REGARDS,

PHILIP CORWIN

Schedule of Subpoenaed Documents

1. All documents in the possession, custody or control of American Invaco Corporation or affiliates of American Invaco Corporation dealing with, relating, or referring in any way to the (a) acquisition, conversion, financing, sales of stock or units, refurbishment, sales or leases of commercial space, and management of and (b) costs or expenses incurred or anticipated to be incurred in and the profits anticipated to be derived from the conversion and sale of units in the Promenade Apartments.
2. All documents in the possession, custody or control of American Invaco Corporation or affiliates of American Invaco Corporation dealing with, relating, containing, showing, or referring in any way to (a) the names and addresses of all individuals who have entered into a completed Purchase Agreement or a Reservation Agreement (without a completed Purchase Agreement) or who otherwise have acquired or will be acquiring shares of stock of Promenade Towers Mutual Housing Corporation; (b) the names and addresses of all individuals who American Invaco or any of its affiliates has contacted in writing, by telephone or in person concerning the purchase of shares of stock of Promenade Towers Mutual Housing Corp. and who have previously purchased condominium or cooperative housing from American Invaco or any of its affiliates; and (c) the names and addresses of all individuals who have purchased or acquired more than one unit in any property converted by American Invaco or any of its affiliates or subsidiaries, and, an identification of any such purchases or acquisitions.
3. For each property converted from multifamily rental to condominium or cooperative ownership by American Invaco Corporation or any of its affiliates or subsidiaries from 1975 to date, all documents in the possession custody or control of American Invaco Corporation or affiliates of American Invaco Corporation dealing with, showing, reflecting, indicating or summarizing (a) the costs of and revenues from the rental property for each of the two years immediately prior to conversion, (b) the price paid for the rental property; (c) the costs and expenses associated with the conversion, including costs and expenses of selling units, apartments, commercial space or stock in the rental property to be converted; (d) the total revenue from the sales of units, space, apartments, or stock and the sale or lease of commercial space, to date; and (e) the terms of commercial leases and management and recreation agreements.
4. All documents in the possession, custody or control of American Invaco Corporation or affiliates of American Invaco Corporation which identify any law suits brought against American Invaco or any of its affiliates or complaints brought or investigations instituted by local or state agencies in connection with any property converted from rental to condominium or cooperative ownership by American Invaco Corporation or any of its affiliates or subsidiaries from 1975 to date.

1415

ISSUE  
HOUSING

November 10, 1980

Dear Jay: I am writing to direct your attention to Section 603 of the Community Development Act of 1980 into law on October 8th. I am writing to direct your attention to Section 603 of the Act, which stresses the important role to be played by Federally insured lenders in mitigating displacement caused by conversions of rental housing. Section 603 states:

"It is the sense of the Congress that lending by Federally insured institutions for the conversion of rental housing should be discouraged where there are adverse impacts on housing opportunities of the low- and moderate-income and elderly and handicapped tenants involved." It is my hope and belief that this important, and explicit statement of the sense of the Congress will aid your efforts to promote further the anti-displacement policy which is implicitly contained within the Community Reinvestment Act (CRA) and its implementing regulations. The regulations direct a focus to "Other factors that in the agency's judgment reasonably bear upon the extent to which the institution is helping to meet the credit needs of its entire community." The uniform examination procedures for CRA, developed and issued by the four Federal financial supervisory agencies, amplify the meaning of factor (L) by stating that pertinent factors may include "whether the institution's policies promote efforts to assist existing residents in neighborhoods undergoing a process of reinvestment and change."

Clearly, loans which assist <sup>current</sup> existing residents to avoid displacement would result in a positive rating under this factor, while failure to extend such loans could indicate that an institution is failing to meet adequately the credit needs of its community. Section 603 of the 1980 Act is simply the corollary to this existing criteria, stating that lending for the purchase of a rental property for conversion, or commitments of mortgage availability for the individual units being marketed within such a property, are activities which should be discouraged where they promote and facilitate the displacement of low- and moderate-income tenants. I am in full accord with Senator Proxmire's declaration, made during the debate preceding Senate passage of the Conference Report on S. 2719, that "if a lender acted contrary to this sense of the Congress, clearly this would have to be taken into account in assessing such lender's record for Community Reinvestment Act purposes."

Regarding implementation of HUD's policy to date, information received from a specific conversion will, of course, be dependent on particular marketing practices and terms surrounding the conversion, local housing conditions, and other factors. However, it is my view that the definition of "adverse effects of displacement" utilized by the Department of Housing and Urban Development in its June 1980 study of conversions -- "movement to rental housing that is of similar or lower quality at higher cost, or of lower quality at equivalent cost" -- is certainly an excellent point of departure for such an evaluation. I am particularly concerned about HUD's finding that households containing persons of age sixty or older were 50 percent more likely than younger households to suffer such adverse effects. This is particularly disturbing in light of the strongly held opinion among aging experts that forced uprooting of the elderly from their neighborhoods, severs them from vital social support systems, and can precipitate physical and psychological hardships.

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Although not directly related to Section 603 and CRA, I also wish to raise a question in regard to HUD's finding that the vast majority of conversions involve, at most, only cosmetic alterations of existing multifamily housing stock. In a time of rental housing crisis, should an increasingly larger portion of the Nation's finite capital resources be utilized to facilitate alterations of the legal status of existing shelter; where such change diminishes affordability, results in negligible qualitative improvement, and triggers increased Federal tax expenditures to subsidize mortgage interest and property taxes? Your view on this question of deep concern will be greatly appreciated.

In closing, let me say that I look forward to hearing from you regarding the actions you are planning to take in response to Section 603 of the 1980 Housing Act, as well as your general comments regarding implementation of CRA's anti-displacement policy to date. Information received from some citizens and public interest organizations suggests that the Federal financial supervisory agencies should consider more vigorous actions to discourage displacement. I certainly hope to explore these important issues with you further in the days ahead. The low- and moderate-

With best personal regards,

...Sincerely, ...

\* In preparation of Section Harrison A. Williams, Jr.  
procedures should not be initiated.

[illegible]



1418

Federal Home Loan Bank Board

JAY JAMES  
Chairman



1700 Q Street, N.W.  
Washington, D.C. 20002  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

December 5, 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Commerce, Consumer and Monetary  
Affairs Subcommittee  
House of Representatives  
Washington, D.C. 20515

CONGRESSMAN BEN ROSENTHAL	
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Dear Mr. Rosenthal:

Your letter of October 24, expressing your interest in the Bank Board's implementation of Section 603 of the Housing and Community Development Act of 1980, passed my letter to you of October 30, indicating that I want my staff to work with yours on this issue.

Your letter, in addition, asks that we look into another area — the effect on condominium and cooperative conversions on housing prices. While the Bank Board's Office of Policy and Economic Research already has begun working on your request, it is clear that our work will not be finished by the end of December, which is when we expect to provide you with our plans to implement Section 603 of the Housing and Community Development Act of 1980. Therefore, I have asked Tom King of our Office of Policy and Economic Research to contact Ted Jacobs and work out a mutually acceptable date for submission of our work to your Subcommittee.

Sincerely,

SIXTY-SIXTH CONGRESS  
**Congress of the United States**  
 House of Representatives  
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 BAYBURN HOUSE OFFICE BUILDING, ROOM 3-207  
 WASHINGTON, D.C. 20548  
 December 17, 1960

Hon. Jay Janis, Chairman  
 Federal Home Loan Bank Board  
 1700 E Street, N.W.  
 Washington, D. C. 20552

Dear Mr. Chairman:

This is in further reference to the subcommittee's ongoing investigation into the impact of Federal laws and Federal agency programs on the condominium and cooperative conversion marketplace.

1

Please find attached a list containing the names of more than 100 individuals who may be non-resident or investor-speculator owners of condominium and/or cooperative units and who have mortgage loans from federally chartered thrift institutions in excess of the 80 percent loan-to-value ratio. The list also contains, as to each individual, the condominium or cooperative address and apartment unit number, the name of the financial institution making the mortgage loan, the purchase price of the unit, and the amount financed. The subcommittee has previously furnished you with the names of such individuals who own apartment units at the Grosvenor buildings in Rockville, Maryland.

I am requesting that the Bank Board examine the loan files for each of the individuals named on the attached list so that you can apprise the subcommittee of the following:

- (1) Did the mortgagor state on the loan application or otherwise indicate that he/she intended to occupy the premises as an owner-occupant?
- (2) Did the mortgagor occupy the unit as an owner-occupant?
- (3) If not, does the amount financed exceed the 80 percent loan-to-value limitations set forth in Bank Board regulations?

(4) Is there a Federal or private mortgage insurance or guarantee policy on the mortgage loan? If so, set forth the agency or company involved.

(5) To what extent, if any, did regular Bank Board examinations of affected financial institutions over the past several years disclose any violations of Bank Board policies, practices, or procedures uncovered in response to this letter request? Did regular examinations of these affected thrift institutions disclose any other matters (i.e., false statements on loan applications) relative to the issue of speculator-investor purchases of condominiums or cooperatives?

# II

The subcommittee staff report (page 25) discusses the existence of Illinois' "blind" or Land Trusts covering a number of American Invsco properties in Chicago. Some of these are set forth below:

- In Imperial Towers, 4250 N. Marine, 160 units were or are owned by American National Bank Trust #41300.
- In 2400 Lakeview, 41 units were or are owned by American National Bank Trust #32452.
- In One East Schiller, 41 units were or are owned by American National Bank Trust #32789.
- In Burton Place, 13 units were or are owned by American National Bank Trust #32170.
- In 4800 Lake Shore Drive, 48 units were or are owned by American National Bank Trust #42679.
- In 336 Wellington, 26 units were or are owned by American National Bank Trust #77855.
- In 360 Wellington, 13 units were or are owned by Exchange National Bank Trust #27050.
- In Sheridan Shores, 35 units were or are owned by American National Bank Trust #41091.
- In 70 East Scott, 12 units were or are owned by LaSalle National Bank Trust #38847.

The staff report states that "almost all of the (individual apartment) units owned by the above names blind trusts are financed by lending institutions regulated by the Federal Home Loan Bank Board or the Federal Savings and Loan Insurance Corporation. In various conversions undertaken by American Invsco in Chicago, large numbers of apartments in each building are owned by a single blind trust."

A November 26, 1980, response to the staff report by American Invsco's Washington counsel, Arnold and Porter, contains the following statement: "In the particular instances cited by the staff...the beneficial owners of these trusts were the American Invsco affiliates who acted as developers in the various projects involved. The purpose of these trusts was to provide a convenient

vehicle for holding title to unsold units in the projects being converted. (Emphasis theirs.) At present, with the exception of one or two units, all units cited...have been conveyed out."

A General Accounting Office study, prepared for the subcommittee, indicates that at the time many apartment units in Invsco buildings were being held in trust accounts, individual mortgage loans on these units were in existence.

Since it is normal practice for a developer to borrow money for the purchase and conversion of a building (encompassing the individual apartment units contained therein) the subcommittee is attempting to determine whether, at the time a purchase and conversion loan was in effect on an Invsco building, separate mortgages existed for large numbers of individual apartments in that Invsco building and, if so, why. If "the beneficial owners of these trusts were the American Invsco affiliates who acted as developers in the various projects involved" -- as stated by Arnold and Porter -- then the subcommittee is interested in determining (1) whether and, if so, why the developer would secure, for the same building, both a purchase and conversion loan and individual unit mortgage loans, and (2) whether this represents a situation in which the same property is used as collateral on two separate loans.

For each of the trust accounts set forth above (during the period they were in effect) we would appreciate your determining (a) the beneficial owner of the trust; (b) the extent to which mortgage loans existed on individual units in the relevant building; (c) whether a separate purchase and conversion loan existed for the building in which the individual units are located; and (d) whether this constitutes the use of the same property as collateral on two separate loans. If so, could this violate any banking laws or regulations administered by the Federal Home Loan Bank Board or by any other Federal or state banking authority?

We would also appreciate your reviewing the GAO study for evidence of any other practice which might constitute a violation of the Board's policies, practices, or procedures.

### III

Please identify the beneficial owners of the following trusts accounts:

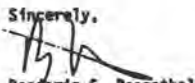
Trust Acc't	Mortgagee	Bldg. & Apt. Unit	Amount Financed
Amer. Nat'l Bank Trust #40963	1st Federal S&L Chicago, Ill.	The Brownstone 1440 N. State Hwy. Chicago, Ill 60610	\$66,300
Amer. Nat. Bank Trust #32172	Skokie Fed S&L Skokie, Ill 60076	Fountain Terrace 5214 Galitz Skokie, Ill Apt. 40	34,200
Amer. Nat'l Bank Trust #39389	Skokie Fed S&L	100 E. Bellvue Chicago, Ill 60611 Apt. 29A	75,000

(Cont.)

Trust Acc't	Mortgages	Bldg. & Apt. Unit	Amount Financed
Amer. Nat'l Bank Trust #25000	Talman Fed S&L Chicago, Ill	2626 Lake View Chicago, Ill 60614 Apt. 4005	\$36,180
Harris Bank Trust #02-55737	1st Fed S&L Chicago, Ill	Harbor House 3200 W. Lake Shore Chicago, Ill Apt. 1902	22,000
La Salle Nat'l Bank Trust #50400	1st Fed S&L Chicago, Ill	Harbor House Apt. 2003	60,000
La Salle Nat'l Bank Trust #53748	Crawford S&L Chicago, Ill	Imperial Towers 4250 N. Marine Chicago, Ill Apt. 2515	62,000
Harris Bank Trust #38107	Crawford S&L Chicago, Ill	Imperial Towers Apt. 2523	19,300
Harris Bank Trust #(unknown)	Cragin Fed S&L Chicago, Ill	Imperial Towers Apt. 2616	71,000
1st Fed S&L Trust #4358	1st Federal S&L Chicago, Ill	100 E. Bellevue Chicago, Ill Apt. 30F	45,000
1st Bank of Skokie Trust #50589T	Crawford S&L Chicago, Ill	Imperial Towers Chicago, Ill Apt. 1926	36,500
Exchange Nat'l Bank Trust #33720	Crawford S&L	Imperial Towers Apt. 1132	17,400
Calumet Fed Savings Trust #41300	Calumet Fed Dolton, Ill	Imperial Towers Apt. 733	29,300

A response by January 9, 1981, would be appreciated.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

Enclosures

BSR:bb

Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
Imperial Towers 4250 N. Marine Dr. Chicago, Ill. 60613	2624	Gertrude Kaplan	28,500	Chicago Federal S&L Chicago	25,600	89%
"	2226	Marshe Greenberg	44,500	Cragin Federal S&L Chicago	42,360	95%
"	2101	American Nat'l Bank Trust #41300	60,500	1st Federal of Chicago	60,800	88%
"	1404	"	42,000	Calumet Fed. S&L Dolton, Ill.	37,500	90%
"	2005	"	23,500	Talman Federal	20,900	89%
"	2813	"	28,000	Chicago Federal S&L	25,000	90%
"	1914	"	24,500	Calumet Federal S&L	21,600	88%
"	626	"	38,500	Horn Federal S&L Chicago	33,900	88%
"	629	"	43,500	Talman Federal S&L	39,000	89%
"	2030	"	41,500	Calumet Federal S&L	37,200	90%
"	336	"	49,500	Talman Federal S&L	44,500	90%
Fountain Terrace 5214 Galitz Skokie, Ill. 60076	40	American Nat'l Bank #32172		Skokie Federal S&L	34,200	90%



Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
70 East Scott 80 - 70 E. Scott Chicago, Ill. 60610	106	John Von Ehr	60,000	1st Federal S&L Merrill, Ill.	54,000	90%
"	203	MA McRee's Corral	34,000	"	30,000	88%
"	204	Anastacio Castillo	26,400	"	23,800	89.8%
"	308	Rita Papp	29,000	"	26,000	89%
"	508	Brian McKenna	30,500	"	27,400	89.8%
"	603	LaSalle Nat'l Bank #38847	30,000	Talman Federal S&L	28,900	90%
"	704	LaSalle Nat'l Bank #38847	39,000	Uptown Federal S&L	35,100	90%
100 E. Bellevue Place Chicago, Ill. 60611	305	1st Federal S&L Trust #4308	55,000	First Federal S&L	45,000	82%
One E. Schiller Chicago, Ill. 60610	118	American Nat'l Bank #32789	62,000	Uptown Federal S&L	55,000	88.7%

1424

Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
Burton Place 1500 N. LaSalle Chicago, Ill. 60610	C1	American National Bank 932170	55,800	Talman Federal S&L	49,000	90%
"	C2	"	54,800	"	49,600	90%
"	C3	"	55,000	"	49,500	90%
"	C5	"	52,000	"	46,800	90%
The Wellington 350 Wellington Ave. Chicago, Ill. 60657	50	Fargo & Rother 2820 Peterson	26,000	Uptown Federal S&L	23,400	90%
"	118	Hitting RA	39,000	Home Federal S&L	34,800	89%
3800 Lake Shore Drive Chicago, Ill. 60613	178	American Inveco	83,300	Calumet Federal S&L	48,000	90%
"	7C	"42679"	119,000	Uptown Federal S&L	109,000	85%
"	40	"	87,000	1st Federal S&L	89,300	
"	2J	"	57,000	Calumet Federal S&L	51,200	90%
336 Wellington Chicago, Ill. 60657	2601	American Nat'l. Bank 77855	41,000	Uptown Federal S&L	36,500	89%
"	1403	"	22,600	Talman Federal S&L	20,000	90%
"	303	"	19,000	"	17,100	90%



Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
Sheridan Shores 5740 N. Sheridan Rd. Chicago, Ill. 60660	3A	American Nat'l Bank 41091	32,000	Northwest Federal S&L of Chicago	29,600	92%
"	12B	Bruno, Larks B	37,500	Cragin Federal S&L	33,500	89%
"	12C		53,500	Uptown Federal S&L	48,100	90%
"	12D		48,500	Cragin S&L	42,200	87%
"	15D	Gulbrandsen, Perry J.	54,500	Uptown Federal S&L	49,000	90%
"	7E	Shedlock, Mike	33,000	"	29,700	90%
Harbor House 3200 N. Lake Shore Dr. Chicago, Ill. 60657	509	Egan James	39,000	Home Federal S&L Chicago	34,700	89%
"	808	Rosenberg Sanford	44,500	Uptown Federal S&L	39,000	89%
2626 Lake View Chicago, Ill. 60614	1706	Tinsley, Stephen J.	25,000	1st Federal S&L	21,000	84%
"	3005	Major, Harry	38,000	"	37,200	98%
"	3310	Butera, Francis J.	28,500	"	26,400	90%

1426

Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Leader	Amount Financed	Approximate 1949-1950 Ratio
Georgetown of Philadelphia 123 Rockliffeburg Dr. Pennlyn, Pa.	88	Kirtland, David S. & Kathleen	50,400	PSPS	45,350	905
"	14F	Mogus, Richard & Ruth	53,400	"	48,000	905
"	199	Dumb, Allison & Dupree	39,800	"	35,800	905
"	20F	Mogus, Patricia M.	32,600	"	29,000	905
"	20E	Greber, Howard H. & Carolyn	32,500	"	29,500	905
"	254	Tanner, Walter L.	45,800	"	40,900	905
"	258	Tanner, Walter L. & Florence	45,600	"	40,900	905
"	17E	Toland, Karen	47,400	"	42,600	905

Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
The Park Lane - Phase I 460 S. Marion Parkway Denver, Col.	102	Brown, John S. & Chris Lynn	54,600	Federal S&L	46,500	85%
"	106	Rocke J. Darrell & Janice F & Meyer, Jerome W. & Bonnie B.	85,800	Colorado Federal S&L	73,300	85%
"	206	Meehan, Majorie H.	84,300	"	72,500	86%
The Park Lane - Phase II Denver, Col.	502	Barkalow, Lynn H.	52,500	Western Federal S&L	44,800	85%
"	652	Moore, Robert A. Moore, Susan McGoldrick	56,800	Colorado Federal S&L	51,250	90%
"	1002	Fentres, Curtis Worth	58,000	Western Federal S&L	49,500	85%
"	1155	Pollak, Michael R.	61,300	"	52,400	85%
"	1255	Maurer, Jill E.	61,600	Colorado Federal S&L	51,300	83%
Chesman Tower West Denver, Colorado	601	Young, Dean D. & Janet Ashe	85,000	Western Federal S&L	72,650	85%

1428

Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
Summit Chase 1000 W. 1st St. Columbus, Ohio	17	Brumbaugh, Richard J. & JE	\$5,000	Ohio Federal S&L	49,500	90%
"	211	Blairst, Teresa M.	62,800	Ohio Federal S&L	59,400	95%
"	219	Fields, Michael	62,300	Ohio Federal S&L	55,000	88%
"	610	Fels, Irs & Service	54,500	Buckeye Federal S&L	46,300	85%
"	621	Lowitz, Ruth C.	35,200	Ohio Federal S&L	32,500	90%
"	622	Ness, Darlene A.	29,800	Ohio Federal S&L	26,800	90%
"	1020	Porter, Jack	59,200	Buckeye Federal S&L	53,200	90%
"	1814	Atlandyca, Michael E. & Susan	59,000	Franklin Federal S&L	53,000	90%
Carriage Hill Cade 1630 Oak Hill Road Columbus, Ohio	1470B	Williams, Warren L. & Jean	41,800	Buckeye Federal S&L	37,700	90%
"	1471	Minson, George W.	39,800	Ohio Federal S&L	36,500	90%
"	1476	Mullt, Harold V.	36,900	Buckeye Federal S&L	33,800	90%
"	1477	Shively, David & C	39,900	"	36,800	88%
"	1504B	Eisenman, Kenneth & Phyllis M.	41,800	Part Federal S&L	39,000	95%
"	1811A	Belovna, Virgil & Alva R.	35,500	"	31,950	90%
"	1816B	Held Kamp, Phillip C & Jean	41,900	Buckeye Federal S&L	38,600	85%

Name and/or address of building	Apt. Unit Number	Name of Owner	Price of Unit	Lender	Amount Financed	Approximate loan-to-value ratio
Carriago Hill Condo - Ohio	1518B	Nees, John E. & Debbie	41,900	Buckeye Federal S&L	39,800	95%
"	1526B	Griffith, Maude	23,900	Park Federal S&L	22,700	95%
"	1530B	Porter, Leonard J.	23,900	"	22,700	95%
"	1556A	Pafford, Wayne T&C	35,500	"	31,950	90%
"	1557A	Ralph, Dennis & Lila	35,500	Buckeye Federal S&L	31,900	90%
"	1566	Stack, Patricia & Patrick	39,900	Park Federal S&L	37,900	95%
"	1570	McCarthy, Timothy	36,100	"	32,400	90%
"	1588	Sinn, Bruce A & S.L.	32,400	Buckeye Federal S&L	29,100	90%
"	1596	Straub, Paul	31,400	"	30,700	96%
"	1610	Kindberg, Edwin	39,900	"	37,900	95%
"	1611	Minson, George	39,900	Park Federal S&L	37,900	95%
"	1614	Meinstock, Michael R.	32,400	Ohio Federal S&L	30,500	95%
Winton Place 12700 Lake Avenue Lakewood, Ohio 44107	3011	Hunefeld, Terry M.	29,800	Cardinal Federal S&L	26,700	90%

1430

1431

Federal Home Loan Bank Board



1700 B Street, N.W.  
Washington, D.C. 20562  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

January 6, 1981

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce, Consumer and  
Monetary Affairs  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Rosenthal:

On October 24th you wrote to Chairman Janis about provisions of Section 603 of the Housing and Community Development Act of 1980. You noted that Chairman Rouse and St Germain had raised several questions about the enforcement of that Section and asked to be informed of the Bank Board's response. For your information I am enclosing a copy of the letter to Chairman Rouse and St Germain, responding to their questions. I hope that you will find this helpful.

You also suggested the need for several studies related to aspects of condominium conversions. On October 30th Chairman Janis wrote that he had asked a Bank Board working group to consult with your Subcommittee about these issues.

With respect to the three studies you requested, our staff members have met several times with members of your staff to clarify the issues. After discussions, Theodore Jacobs, General Counsel of the Subcommittee, agreed that before the Bank Board began independent studies of the second and third issues you raised, we would review the studies of these issues that HUD is now undertaking. If we consider HUD's work satisfactory, it was agreed that we would not undertake our own study. This will permit us to reduce costs and avoid unnecessary duplication.

We also agreed to consider further the first study you requested, concerning the extent of speculative activity in condo or co-op units financed by member financial institutions. Our discussions with your staff in regard to this centered on the problem of defining "speculative activity." Of the suggestions discussed, the only one that might serve as an approximate measure of speculation is the amount of non-owner occupancy, but this, too, has many serious flaws. In a fundamental sense, even the person who buys and occupies a condominium is speculating that the value will increase, not decrease.

1432

If we do accept non-owner occupancy of a condo or co-op as an indicator of speculative activity, we could design a study to monitor it, but the study would be slow and costly. It would require us to undertake survey work outside our experience and existing staff capability. Moreover, the Bank Board has no authority to compel individual condo or co-op owners to co-operate with the study. Thus, the responses might be incomplete and of little value.

The problems I foresee with the design, execution, and interpretation of a study along these lines, as well as the difficulties and expense, make me reluctant to proceed without more guidance from the Subcommittee. The Bank Board staff would be happy to speak with your staff members about this.

Sincerely,

  
John H. Dalton

1433

Federal Home Loan Bank Board

JOHN H. DALTON  
CHAIRMAN



1706 G Street, N.W.  
Washington, D.C. 20562  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

JAN 6 1981

Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Finance and  
Urban Affairs  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

In your letter of October 15, 1980 you asked several questions related to Section 603 of the Housing and Community Development Act of 1980. A subsequent letter of November 20, 1980 raised an additional question and also the possibility that Section 603 should be enforced as part of the regular CRA examination. On October 30 Chairman Janis wrote that he had set up a staff working group to address these issues and that he would provide answers to your questions after he had reviewed its recommendations.

The Bank Board intends to issue a circular to members of the Home Loan Bank System informing them of the sense of Congress as expressed in Section 603 and noting that condominium conversion may have adverse impacts on persons with low and moderate incomes, the elderly and the handicapped. Also, our Office of Examinations and Supervision will be alert to complaints from consumers and community groups about conversions that the association may finance where there are adverse impacts on the elderly, handicapped or persons with low and moderate incomes.

To inform civic and neighborhood organizations of the provisions of Section 603, the Bank Board will rely on our Office of Community Investment and the Community Investment Officers of the twelve District Banks. These staff members meet frequently with such groups.

You have asked what action the Bank Board will take to assure that Section 603 is implemented by savings and loan associations. My understanding is that the sense of Congress expressed in Section 603 directs the Bank Board and other regulatory agencies to discourage lending for condominium conversions when there are adverse impacts on persons with low and moderate incomes, the elderly, or the handicapped. The language of the Section does not give the Bank Board authority to prohibit lending for



conversions. In my view, therefore, the steps described above go as far toward discouraging inappropriate lending as is consistent with the provisions and language of Section 603.

Finally, you have asked how the Bank Board plans to be informed that an association has made loans for a conversion that has had an adverse impact on certain groups. In this, as in other spheres of associations' activities, the Board must rely primarily on our network of examiners. This will be supplemented by complaints filed with our Office of Examinations and Supervision and by information gathered by staff members in meetings with community groups.

The Bank Board does not plan to include an evaluation of condominium lending as part of the normal CRA examination. Because Section 603 provides no enforcement authority, I do not think it would be permissible to impose the penalties provided for CRA violations. Furthermore, the CRA requires that lenders help meet the credit needs of their entire communities. By lending for conversions, the associations demonstrate that they are helping to meet a certain segment of the community's need for credit and are promoting homeownership. In this regard it should be noted that the HUD study of conversions found that condominiums are a form of homeownership that can be useful to women, minorities, and lower income households. By making loans for condominiums, associations may, depending upon circumstances, assist these groups, for whom Congress has expressed a concern in such legislation as HMDA and CRA, to achieve homeownership. Thus, from the perspective of CRA it does not appear that lending for conversions should necessarily be considered a negative factor. I want to emphasize that these remarks do not indicate a lack of sympathy for the concerns expressed in Section 603, but only reflect my judgment that these concerns are not necessarily implied by the language of CRA.

I think it is important to say that our efforts to encourage compliance with the provisions of Section 603 are greatly hampered by the failure of the Section to define "adverse impact." It appears that some members of Congress would consider that an "adverse impact" occurs if even one tenant of a converting unit is forced to purchase his unit or to leave and would prefer not to change his status, whether or not comparable units at comparable rents are available elsewhere. Others would say that some specified fraction of residents, perhaps 5, 10, or 25 percent, must be affected this way for there to be an "adverse impact." Others would reserve the term for situations where comparable housing at comparable rents is unavailable and leave out any consideration of whether the tenant prefers to move or not. There are also other problems; for example, it is often true that long time tenants of a unit will pay rents at less than market rates being charged other tenants for comparable units. What adjustments should be allowed for this in deciding whether comparable

1435

units are available at comparable rents? Because of these ambiguities it is difficult for the Bank Board either to judge whether an association is engaging in inappropriate conversion lending activities or to issue precise guidelines that would assist an association in deciding whether a proposed conversion would have an adverse impact. Nonetheless, you can be assured that the Bank Board will do everything possible to publicize the sense of Congress as expressed in Section 603.

An identical letter is being sent to Chairman St Germain.

Sincerely,

*JS/*

John H. Dalton

1436

Federal Home Loan Bank Board



1700 G Street, N.W.  
Washington, D.C. 20562  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

JAN 6 1981

Honorable Benjamin S. Rosenthal  
Chairman  
Commerce, Consumer, and Monetary  
Affairs Subcommittee  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

Thank you for your November 20 letter and the accompanying initial report on the Subcommittee's staff's investigative findings on conversion to cooperative condominiums. Your staff and the Federal Home Loan Bank Board staff have had a number of meetings and exchanges of information on these matters.

We agree that the Subcommittee's work has raised issues which involve and concern the Board. The question of whether speculator-investor purchases of condominium units contributes to housing inflation is a highly important issue, although it is not clear whether this contention can be substantiated by data available to us.

The Subcommittee's initial report refers to numerous instances in which loan applications and supporting data contain false statements. As the report also points out, the Board regularly refers violations of the law to the Justice Department for their consideration of possible prosecution. We are preparing to refer to the Justice Department a number of possible violations at the Grosvenor project brought to our attention by your staff. Should additional instances of possible violations be referred to us, we would similarly review these cases to determine whether to transmit them to the Justice Department.

I am concerned by the Subcommittee's preliminary suggestion that our examination and compliance procedures are inadequate. As pointed out by the report, our ability to examine for compliance is limited under current regulations to the records of the institutions we regulate. The Subcommittee's staff has urged that we adopt stringent new regulations to insure compliance. This is a matter that I will ask our policy people to examine. Before we undertake this, however, it would be beneficial to have some specific recommendations from you.

Your Subcommittee wants to pursue the issue of loans made to blind trusts. And, at your request, we have provided background and explanatory information on the use of trusts in Illinois as well as specific examples of loans made to trusts. We hope that this information will be of assistance to the staff.

Sincerely,

/s/

John H. Dalton

1437

Federal Home Loan Bank Board

JOHN H. DALTON  
CHAIRMAN



1701 G Street, N.W.  
Washington, D.C. 20552  
Federal Home Loan Bank System  
Federal Home Loan Mortgage Corporation  
Federal Savings and Loan Insurance Corporation

JAN 13 1981

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee of the Committee  
on Government Operations  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

This is to acknowledge receipt of your December 17, 1980 letter and to advise you as to the status of the requests which you made.

We have arranged to obtain the information requested in Sections I and III of your letter. As per our agreement with Peter Barash, we will provide the information to the Subcommittee no later than January 16, 1981. Also, the attached list referred to in Section I includes eight loans at Georgetown of Philadelphia on which the lender is "PSFS." These initials refer to the Philadelphia Savings Fund Society, a Pennsylvania-chartered, FDIC-insured, mutual savings bank. Since we do not examine or supervise this institution, we will not be able to provide the information requested for these eight loans.

In Section II, a request is made for the identity of the beneficial ownership of nine trusts held by American, Exchange and LeSalle National Banks. All three banks are chartered, examined and supervised by the Comptroller of the Currency and we have no authority to examine them. Accordingly, we will be unable to provide the information you requested, insofar as Section II is concerned. However, where there has been a conveyance of a portion of the beneficial interest which shows up in Section III, we will make an effort to obtain as much of the data requested in Section II as possible.

With regard to the information which we are unable to provide, we have forwarded a copy of your inquiry to the respective regulatory agency concerned, accompanied by a request that they respond to you directly.

Sincerely,

John H. Dalton

1438

ROBERT D. BENTLEY, JR., Chairman  
ROBERT T. BENTLEY, JR., Ranking Member  
FRANK J. ST. GERMAIN, JR., Chairman  
JOHN C. STUBBS, JR., Ranking Member  
ALBERT A. LUTHE, JR.

JOHN C. STUBBS, JR., Chairman  
ALBERT A. LUTHE, JR., Ranking Member  
FRANK J. ST. GERMAIN, JR., Chairman  
ROBERT T. BENTLEY, JR., Ranking Member

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
House of Representatives  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 5-407  
WASHINGTON, D.C. 20540

August 21, 1980

Mr. Philip R. Brinkerhoff, President  
Federal Home Loan Mortgage Corporation  
1776 G Street, N.W.  
Washington, D.C. 20006

Dear Mr. Brinkerhoff:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invsco, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

Programs of secondary mortgage market institutions such as FHLMC directly affect the practice of conversions by making it easier to finance and resell converted units. Since most projects are developed to qualify for secondary market programs, the legal, financial, and physical condition standards required by FHLMC have tended to become the industry's minimum standards that affect the quality of conversion projects. These standards are often the only standards protecting consumers in this area. Thus, it is only because of FHLMC requirements that certain abuses such as long-term recreational leasing are prohibited.

Please supply the subcommittee with a complete list of FHLMC standards dealing with the following:

- a. Legal requirements - What kind of review do you undertake of the legal documents required for a project? Do you review state or local agency actions or pending or proposed litigation?
- b. Project conditions - How do you require that the architects or engineers report on the condition of structural and major mechanical systems be based on thorough analysis and be conducted by independent entities?


1439

- c. Warranties - What kinds of warranties do you require against latent defects in the project?
- d. Management - What standards do you have on management arrangements involving the developers or organizations associated with them?
- e. Budget - How do you review the proposed budget of a proposed condo or coop for accuracy and completeness? How do you determine whether an adequate reserve fund for maintenance, repairs, and replacement of common elements is present?
- f. Owner-occupant and investor purchase rules - What are your rules to insure that units will be occupied as primary residences by owner-occupants? How are these rules enforced?

We anticipate that our inquiry will culminate in hearings and in such other action as the subcommittee may direct. In order to prepare these hearings, we request that you make the information requested herein, and such other information as our staff may request, available as soon as possible.

If your staff has any questions, they may contact the subcommittee at 225-4407.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

Enclosure

BSR:jb

1440

MICHAEL D. BARNES  
8TH DISTRICT, MARYLAND  
WASHINGTON OFFICE  
1001 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-2541

CONGRESSIONAL CREDIT SERVICE  
2001 BRIDGE AVENUE  
BETHESDA, MARYLAND 20814  
(301) 354-3000  
SPECIAL PRICES FOR THE  
REARMS 800-552-2222  
TTY-202-225-2541



Congress of the United States  
House of Representatives  
Washington, D.C. 20515  
August 19, 1980

COMMITTEE ON FOREIGN AFFAIRS  
SUBCOMMITTEE  
ECONOMIC AND THE MIDDLE EAST  
INTERNATIONAL ECONOMIC  
POLICY AND TRADE  
COMMITTEE ON THE JUDICIARY  
SUBCOMMITTEE  
NOMINATIONS, RESOURCES AND  
INTERNATIONAL LAW  
ADMINISTRATIVE LAW AND  
CONSTITUTIONAL RELATIONS  
COMMITTEE ON THE DISTRICT  
OF COLUMBIA  
SUBCOMMITTEE  
JUDICIARY, MANAGEMENT  
AND EDUCATION

The Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

Recently it was announced that The Promenade, an apartment building at 5225 Pooks Hill Road in Bethesda, Maryland, would convert from its current status as rental apartments into a cooperative. The decision of the Promenade's owners to undertake the conversion has resulted in local litigation to try to stop it, and the case is presently in court. The Promenade is located in Montgomery County in the 8th congressional district of Maryland, which I represent.

I believe that the manner in which this conversion is being attempted raises serious questions of public interest which fall within the jurisdiction of the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, which you chair. There are concerns with respect to potential consumer fraud and false advertising and questions involving the financing of the proposed cooperative which fall within the purview of the subcommittee. In addition, there are broader questions with respect to how the practices involved in the Promenade conversion work elsewhere in the nation, and the effects they have on the pricing and availability of housing for millions of Americans.

I would therefore request that the Subcommittee on Commerce, Consumer and Monetary Affairs undertake an investigation of the Promenade conversion. My office is ready to give you any assistance which may be helpful to you in this matter.

I very much appreciate your consideration of this request.

Sincerely,

*Mike Barnes*  
Michael D. Barnes

MDB/map

1441

## The Mortgage Corporation

Philip R. Brinkerhoff  
President  
Chief Executive Officer  
(202) 789-4720

September 17, 1980

Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Bldg.  
Washington, D.C. 20515

Dear Chairman Rosenthal:

I am responding to your letter of August 21, 1980, in which you requested information concerning the Mortgage Corporation's standards in purchasing loans on condominium and cooperative housing units. The Congress authorized the corporation to purchase loans on individual cooperative units last year. We do not have a program in place and are just beginning to review the difficult appraisal, underwriting and legal problems involved. It also appears that we will need a change in the IRS code treatment of cooperative loans before we can develop a viable program. I have responded to your questions as they relate to the corporation's condominium purchase program.

Responses to your individual questions follow:

Q. Legal requirements - What kind of review do you undertake of the legal documents required for a project? Do you review state or local agency actions or pending or proposed litigation?

A. FHLMC relies on the warranty of the Seller that FHLMC's requirements for condominiums and state and local laws have been met. It is the responsibility of the Seller to review the condominium documents and determine if they meet FHLMC requirements. As a general matter, FHLMC does not review condominium documents. FHLMC reserves the right to require the Seller to submit its condominium documents to the Corporation for approval, but in practice, this authority has been used sparingly.

FHLMC does not review state or local agency actions or pending litigation affecting condominium projects. We assume that by "state or local agency actions" you are referring to jurisdictions that require government approval of condominium documents. The only type of government action that FHLMC would review would be zoning information in conjunction with a property appraisal.

Q. Project conditions - How do you require that the architects or engineers report on the condition of structural and major mechanical systems be based on thorough analysis and be conducted by independent entities?

Federal Home Loan Mortgage Corporation  
Post Office Box 37248 Washington, D.C. 20015 Phone (202) 789-4700



A. At present we do not require architectural or engineering reports on the condition of structural and major mechanical systems. A proposed change in our policy regarding these reports scheduled for adaptation 11/80 will require a licensed engineer's report indicating the structural integrity of the building and the condition of the major systems including the roof, heating and cooling systems, plumbing, electrical, and elevators, for all condominium conversions. In addition, the appraisal form (FELMC Form 465) used by FELMC Sellers calls for a thorough physical and market analysis of the project by the Appraiser.

Q. Warranties - What kinds of warranties do you require against latent defects in the project?

A. Prior to the purchase of an initial condominium or FUD Mortgage Loan, FELMC must inspect the project within which the premises securing the mortgage are located. These inspections are performed by our own regional staff and/or fee inspectors selected by us and are designed to determine overall quality and condition of improvements. There are no specific warranties as to latent defects.

Q. Management - What standards do you have on management arrangements involving the developers or organizations associated with them?

A. FELMC does not require specific standards for management arrangements. However, to protect our interests as well as the public's from unsatisfactory management, the Seller must warrant that "any agreement for professional management of the condo project, or any other contract providing for services of the developer, sponsor, or builder may not exceed three years. Any such agreement must provide for termination by either party without cause and without payment of a termination fee on ninety (90) days or less written notice.

Q. Budget - How do you review the proposed budget of a proposed condo or coop for accuracy and completeness? How do you determine whether an adequate reserve fund for maintenance, repairs, and replacement of common elements is present?

A. FELMC requires sellers to submit Addendum B, Form 465 (Analysis of Annual Income and Expenses - Operating Budget) if developer control has not terminated or if the homeowners association has not been controlled by unit owners for two or more years. This statement is detailed and provides for a listing of replacement reserves, years of estimated remaining life, expected replacement cost, and average yearly cost, as well as fixed and operational expense for each major component. FELMC underwriters compare these estimates with the standards of the industry for those particular items in order to determine adequacy. In addition, the Seller must warrant "that Condominium dues or charges shall include an adequate reserve fund for maintenance, repairs and replacement of those common elements that must be replaced on a periodic basis, and shall be payable in regular installments rather than by special assessments.

Q. Owner-occupant and investor purchase rules - What are your rules to insure that units will be occupied as primary residences by owner-occupants? How are these rules enforced?

1443

A. As to projects under developer control and whose homeowner's association has been controlled by unit owners (other than the developer) for less than two years, FRLMC requires the Seller to warrant that: "At least (60%) of the units sold in the condominium project are sold to individuals for use as their primary year-round residence. On all other projects the seller must warrant that: "Sixty-percent (60%) of the units in the project are occupied by unit owners as their primary year-round residence." Rules are enforced by field inspections by FRLMC personnel.

In order to provide additional clarification, we have already supplied the relevant sections of our program guide to your staff. I hope this information is responsive to your needs.

Sincerely,

*Philip R. Brinkerhoff*

Philip R. Brinkerhoff

1444

## The Mortgage Corporation

Philip R. Brinkmanhoff  
President  
Chief Executive Officer  
(202) 789-4720

October 9, 1980

Honorable Benjamin Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Bldg.  
Washington, D.C. 20515

Dear Chairman Rosenthal:

In your letter of September 26, 1980, you inquired whether the Mortgage Corporation has purchased loans in the Grosvenor Park Apartments and, if so, if the project complies with our owner-occupancy requirements.

The Mortgage Corporation has purchased a substantial number of mortgages on units in the Grosvenor Park Apartments. At the time of the first delivery of these loans for purchase by the corporation, lenders originating these loans certified, among other things, that this project was in compliance with the corporation's owner-occupancy requirements. Subsequent deliveries of loans to us from this project contained no waiver requests from lenders as to our owner-occupancy requirements.

Further clarification of our owner-occupancy requirements may be helpful to you. These requirements depend in part on whether the project in question is a Class I or Class II Project which is our method of separating established and nearly sold out projects from those still involved in a sales campaign to some degree. The basis of this separation is the date on which developer control terminates, which normally will be determined by either the documents creating the condominium, or by applicable law. One of the key characteristics we look for is a high degree of market acceptance of the project. We will require more documentation and project information on a project that has not evidenced substantial market acceptance through sales, than on one that has demonstrated market acceptance. A Class I Project is described in the FHLMC Sellers' Guide as:

"A condominium project as to which developer control has not terminated or whose homeowners association has been controlled by the unit owners (other than the developer) for less than two years:"

A Seller of loans in Class I Projects must certify compliance with certain warranties designed to insure that the project is stable and capable of standing on its own.

In the Sellers' Guide this is stated as follows:

"Seller must submit to FHLMC with the first mortgage delivered for purchase in whole or in part, in each condominium project a certification, signed by an authorized officer of the Seller, of compliance with the warranties set

Federal Home Loan Mortgage Corporation

Post Office Box 37248 Washington, D.C. 20015 Phone (202) 789-4700

forth below. In the event the Seller requests a waiver of any of these warranties, Seller shall, prior to the time of delivery of the mortgage loan, submit such certification, except for those warranties which Seller especially requests and recommends a waiver or modification. This certification (and waiver request, if any) must be in the form set out in Part V, Exhibit M and must be addressed on Seller's letterhead stationery to the applicable FHLMC Regional Office. Any waiver request must list the applicable paragraph number of the warranties and the reasons why the waiver or modification is recommended.

If changes occur which affect a certification or waiver request, Seller agrees to furnish FHLMC with a new certification (with subsequent deliveries from that project) or waiver request (prior to subsequent deliveries from that project) in accordance with the procedure described in the preceding paragraph.

Seller agrees to furnish FHLMC at Seller's expense, such legal opinions addressed to Seller and FHLMC, by counsel, acceptable to FHLMC, as FHLMC may request.

Alternatively, if FHLMC so requires, Seller agrees to submit for approval by counsel to FHLMC, at Seller's expense, the Declaration of Condominium (or Master Deed, or a similar instrument), the bylaws and regulations, and such other documents that pertain to the condominium project (herein referred to as the "condominium constituent documents"), including any public disclosure report required by federal or state law.

As you know, one of these Class I warranties requires Sellers to warrant that at least 80 percent of the units sold in the project are sold to individuals for use as their primary year-round residence. However, because of the nature of Class I loans (those in the early years of existence and still involved heavily in sales) another warranty requires that at least 70 percent of the units in the project be sold before FHLMC will purchase loans. This percentage can be waived down to 51 percent. The key words here are "at least 80% of the units sold." In an instance where a Class I loan is submitted in a project where 70 percent of the units are sold, our warranty would require that 80 percent of that 70 percent sold are to individuals for use as their primary year-round residence this requirement appears in the Guide as follows:

"(10) Seventy percent (70%) of the units in the condominium project have been sold to bona fide purchasers who have closed or who are legally obligated to close. Multiple purchases of condominium units by one owner are to be counted as one sale when counting the number of sales within a condominium project to determine if this sales requirement has been met. (FHLMC may reduce this seventy percent (70%) sales requirement to fifty-one percent (51%) for those condominium projects where Seller can document to FHLMC's satisfaction adequate reasons for such a waiver.)

In a condominium project subject to phasing or add-ons, in which sections or phases are established by the condominium constituent documents and under a common homeowners association, a section or phase may be combined with other completed, sold and occupied sections or phases to meet the presale requirement.

A section/phase is one which is of sufficient size to contain an adequate number of units to support any common elements or recreational facilities which are included in the sale price or appraised value of the individual unit, and in a condominium project, the section/phase is generally established by the condominium constituent documents.

"(11) At least eighty percent (80%) of the units sold in the condominium project are sold to individuals for use as their primary year-round residences."

Class II loans are defined as:

"A condominium project whose homeowners association has been controlled by the unit owners (other than the developer) for at least two years, and which is not subject to phasing or add-ons which have not yet been completed.

Although Seller is not required to submit a written certification of compliance with the warranties set forth below, in the event Seller requests a waiver of any of these warranties, Seller shall submit a certification and waiver request in accordance with the procedure set forth in Section 3.207a for a Class I Condominium.

In order to qualify as a Class II loan, at least 90 percent of the units must be sold. Owner-occupancy must be at least 60 percent of the total units in the project. The Guide states:

"(9) At least ninety percent (90%) of the units have been sold and conveyed to bona fide purchasers, and sixty percent (60%) of the units in the project are occupied by unit owners as their primary year-round residences."

The corporation strives to make underwriting decisions which are balanced to reflect prudent business practices as well as consumer protections for homeowners and home purchasers.

It is my understanding that Ted Jacobs of your staff will be meeting with my staff to discuss our condominium purchase programs. We appreciate your interest in our programs and hope this information will be responsive to your needs.

Sincerely,

*Philip R. Brinkerhoff*

Philip R. Brinkerhoff

1447

RECEIVED, SEPTEMBER 14, 1980  
HONORABLE J. HUNTER, CHAIRMAN  
FEDERAL NATIONAL MORTGAGE ASSOCIATION  
3900 Wisconsin Avenue, N.W.  
Washington, D.C. 20016

U.S. HOUSE OF REPRESENTATIVES  
OFFICE OF THE CLERK  
WASHINGTON, D.C. 20541

96TH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 5-407  
WASHINGTON, D.C. 20540

August 21, 1980

Mr. Oakley Hunter, Chairman  
Federal National Mortgage Association  
3900 Wisconsin Avenue, N.W.  
Washington, D.C. 20016

Dear Mr. Hunter:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invscio, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

Programs of secondary mortgage market institutions such as FNMA directly affect the practice of conversions by making it easier to finance and resell converted units. Since most projects are developed to qualify for secondary market programs, the legal, financial, and physical condition standards required by FNMA have tended to become the industry's minimum standards that affect the quality of conversion projects. These standards are often the only standards protecting consumers in this area. Thus, it is only because of FNMA requirements that certain abuses such as long-term recreational leasing are prohibited.

Please supply the subcommittee with a complete list of FNMA standards dealing with the following:

- Legal requirements - What kind of review do you undertake of the legal documents required for a project? Do you review state or local agency actions or pending or proposed litigation?
- Project conditions - How do you require that the architects or engineers report on the condition of structural and major mechanical systems be based on thorough analysis and be conducted by independent entities?

1448

- c. Warranties - What kinds of warranties do you require against latent defects in the project?
- d. Management - What standards do you have on management arrangements involving the developers or organizations associated with them?
- e. Budget - How do you review the proposed budget of a proposed condo or coop for accuracy and completeness? How do you determine whether an adequate reserve fund for maintenance, repairs, and replacement of common elements is present?
- f. Owner-occupant and investor purchase rules - What are your rules to insure that units will be occupied as primary residences by owner-occupants? How are these rules enforced?

We anticipate that our inquiry will culminate in hearings and in such other action as the subcommittee may direct. In order to prepare these hearings, we request that you make the information requested herein, and such other information as our staff may request, available as soon as possible.

If your staff has any questions, they may contact the subcommittee at 225-4407.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

Enclosure

BSR:jbb

MICHAEL D. BARNES  
8TH DISTRICT, MARYLAND  
—  
WASHINGTON OFFICE:  
1807 Longworth House Office Building  
WASHINGTON, D.C. 20515  
(202) 225-2341

MONTGOMERY COUNTY OFFICE:  
5524 Edison Avenue  
BETHESDA, MD 20814  
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SPECIAL PHONE FOR THE  
HEARING IMPAIRED  
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TTY-434-2897



COMMITTEE ON FOREIGN AFFAIRS  
—  
SUBCOMMITTEE:  
EUROPE AND THE MIDDLE EAST  
INTERNATIONAL ECONOMIC  
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IMMIGRATION, REFUGEES AND  
INTERNATIONAL LAW  
ADMINISTRATIVE LAW AND  
GOVERNMENTAL RELATIONS  
—  
COMMITTEE ON THE DISTRICT  
OF COLUMBIA  
—  
SUBCOMMITTEE:  
JUDICIARY, MANAGEMENT  
AND EDUCATION

The Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

Recently it was announced that The Promenade, an apartment building at 5225 Pooks Hill Road in Bethesda, Maryland, would convert from its current status as rental apartments into a cooperative. The decision of the Promenade's owners to undertake the conversion has resulted in local litigation to try to stop it, and the case is presently in court. The Promenade is located in Montgomery County in the 8th congressional district of Maryland, which I represent.

I believe that the manner in which this conversion is being attempted raises serious questions of public interest which fall within the jurisdiction of the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, which you chair. There are concerns with respect to potential consumer fraud and false advertising and questions involving the financing of the proposed cooperative which fall within the purview of the subcommittee. In addition, there are broader questions with respect to how the practices involved in the Promenade conversion work elsewhere in the nation, and the effects they have on the pricing and availability of housing for millions of Americans.

I would therefore request that the Subcommittee on Commerce, Consumer and Monetary Affairs undertake an investigation of the Promenade conversion. My office is ready to give you any assistance which may be helpful to you in this matter.

I very much appreciate your consideration of this request.

Sincerely,

*Mike Barnes*  
Michael D. Barnes

MDB/map



## FEDERAL NATIONAL MORTGAGE ASSOCIATION

OASLEY HUNTER  
Chairman of the Board and President

FNMA

September 16, 1970

Honorable Benjamin S. Rosenthal, Chairman  
Commerce, Consumer and Monetary Affairs  
Subcommittee  
House of Representatives  
Washington, D.C. 20515

Dear Congressman Rosenthal:

This will reply to your letter of August 21st regarding, generally, the public policy implications of the trend toward conversions of rental units to condominium and cooperative ownership and, specifically, the conversion of the Promenade Apartments in Bethesda, Maryland to cooperative status.

With reference to the Promenade, the Federal National Mortgage Association (FNMA) presently has no conventional mortgage program to finance cooperative apartments. However, FNMA does purchase blanket loans on cooperative projects which are insured under Section 213 of the National Housing Act. We are unable to purchase individual unit loans insured by HUD under Section 203(n) because of the underwriting and legal problems presented by the absence of any underlying security interest. We understand that this project is being financed conventionally and therefore FNMA has no involvement with the project.

Our responses to the questions set forth in your letter are included below:

a. Legal Requirements - What kind of review do you undertake of the legal documents required for a project? Do you review state or local agency actions or pending or proposed litigation?

FNMA has two basic programs which are designed to provide financing for units in condominium projects that FNMA determines are acceptable from an underwriting and legal point of view. One

program, which is usually referred to as FNMA's regular condominium/PUD program, applies to both proposed and new construction, as well as existing projects. Under this program, FNMA conducts an extensive underwriting and legal review of the project to determine if it is acceptable. The second program is referred to as FNMA's special existing condominium/PUD program and applies only to certain condominium projects which qualify for an expedited underwriting and legal review. This latter program is designed to facilitate the financing of resales of individual condominium and PUD units in established projects.

Under FNMA's regular condominium/PUD program, the FNMA-approved mortgage lender, also referred to as the FNMA mortgage seller, is primarily responsible for determining if the project meets various legal requirements set forth in its selling contract with FNMA. The FNMA mortgage seller is required to obtain an opinion of counsel, who is acceptable to FNMA, which reflects whether or not the project complies with FNMA's legal requirements and applicable federal, state and local laws. For example, the constituent documents of the project should contain adequate provisions protecting the interest of first lien holders and requiring the association to maintain adequate insurance covering the project as a whole.

In addition, the mortgage seller is required to make certain warranties to FNMA with respect to each unit loan sold to FNMA in the project. The seller would warrant, for example, that the sale of unit loans in the project complies with all applicable federal and state securities laws, in addition to local laws, ordinances and regulations governing the development and sale of units in the condominium project. It is necessary for FNMA to rely primarily upon the seller warranties and opinion of counsel to reflect compliance of the project with applicable laws, since FNMA is a purchaser of unit mortgages in projects located throughout the country.

The FNMA Seller will submit the constituent legal documents applicable to the project for FNMA's review. These documents will usually include copies of any governmental public report, offering plan or prospectus that may be required by a state regulatory agency. FNMA counsel performs a legal review of this documentation to determine if the opinions given by the seller's counsel are adequately supported by provisions in the constituent documentation. If there are any areas which do not meet FNMA's

requirements, then it may be necessary for the seller and his attorney to have the documents amended. The seller is required to disclose any pending or proposed litigation which may adversely affect the project. If FNMA becomes aware of any such litigation, it would be evaluated on an individual case basis to determine whether the litigation would have a significantly adverse effect upon the marketability of unit loans in the project.

Under FNMA's special existing condominium/PUD program, FNMA will conduct an expedited legal and underwriting review of certain qualified projects. In order for a project to qualify for this expedited review process, it must meet certain criteria established by FNMA under its contract with the FNMA-approved Seller. While there is a significant amount of flexibility built into the program, generally the project should have been completed for at least 18 months and the units substantially sold. In addition, the developer should have relinquished control of the owners association to unit purchasers and the project must be well-managed and operated. One specific requirement for eligibility is that there exists no significant litigation or legal proceedings that may adversely affect the project.

In order to reduce the seller's cost in obtaining FNMA's approval of the project, an attorney's opinion is not required under the special existing program and the number of requirements have been reduced. This has been accomplished on the basis that the project has established a good track record and demonstrated that it is a viable operating entity. The Seller is still required to warrant that the project complies with all applicable laws.

FNMA is in the process of revising its condominium programs to streamline and simplify the requirements for obtaining FNMA's approval of a condominium or PUD project. The overall revision to our program will incorporate the legal policies that have been agreed to by members of the HUD-sponsored Condominium Task Force. The members of the Condominium Task Force, consisting of FNMA, FHLMC, HUD and VA, sought to achieve some degree of uniformity in the various legal requirements applicable to their respective condominium programs.

b. Project Conditions - How do you require that architects or engineers reports on the condition of structural and major mechanical systems be based on thorough analysis and be conducted by independent entities?

The essence of FNMA's approach to condominiums is that we analyze each project individually. Each FNMA regional office reviews a registered engineer's or architect's report for the project which must disclose the quality of construction and the condition of major systems, such as the electrical, plumbing, heating, air conditioning and utility systems. The report must also reflect that all systems comply with applicable building codes and other local requirements applicable to these facilities. On condominium projects in which construction was completed in the last 18 months, a copy of the floor plan for each unit type must be submitted, and there must be a registered architect's or engineer's analysis of soil characteristics and foundation design. If there are any inadequacies, the developer may be required to bring such systems up to standard or to create a reserve so as to minimize the possibility of substantial special assessments levied by the owners association in the future. A particularly important aspect of conversions is the architect's or engineer's estimate of the remaining economic life and cost to replace major project components, e.g., roofs, elevators, heating and cooling systems.

For all condominium projects designed with adjoining units, there must be a registered architect's or engineer's analysis of the construction of partitions between the individual units, corridor walls, and partitions between rooms within the unit. The estimated sound transmission classification (STC) rating for each area must meet certain sound transmission limitations established by FNMA.

c. Warranties - What kind of warranties do you require against latent defects in the project?

Under FNMA's existing program, the FNMA seller who is seeking approval of a project in which construction was completed in the last 18 months, or is still proposed, must describe the method by which unit owners are provided with assurance against latent defects for at least one year from the date of completion of the project. A proposed modification to our program would require assurances against construction and structural defects in an amount and in a form acceptable to FNMA, e.g., cash escrow, bond, warranty. Such assurances will relate to defects in each unit which become apparent within one year from the date of settlement, and on all common areas from the time units representing 60% of the votes of the owners association have been transferred. The condominium statutes in many jurisdictions specify requirements

for warranties against latent defects provided by the developer to condominium unit purchasers. FNMA relies primarily upon the warranties made by the FNMA mortgage seller and the opinion of the seller's counsel to reflect compliance with these requirements.

d. Management - What standards do you have on management arrangements involving the developer or organizations associated with them?

Currently, FNMA requires experienced professional management for the project, although FNMA will consider waiving this requirement for smaller projects. In addition, any management agreement for the project must be terminable for cause upon 30 days' written notice and the term of any such agreement may not exceed one year. The agreement may be renewable by agreement of the parties for successive one-year periods. FNMA will consider reasonable modifications on a case basis to the termination provisions and term of the management agreement. Generally, unless waived in writing by FNMA, it is unacceptable for the developer or an affiliate of the developer to retain the right to enter into a management agreement which extends beyond the date on which unit purchasers obtain control of the owners association.

Under a proposed modification to our requirements, in the absence of a waiver by FNMA, it will be unacceptable for a developer or an affiliate of a developer to bind an owners association either directly or indirectly to management contracts, unless the owners association is provided with a right of termination of any such contract, without cause, which is exercisable without penalty at any time after passage of control upon not more than 90 days' notice to the other party thereto.

e. Budget - How do you review the proposed budget of a condo or coop for accuracy and completeness? How do you determine whether an adequate reserve fund for maintenance, repairs, and replacement of common elements is present?

A careful examination of the proposed budget for a condominium project is one of the key elements in our review of project submissions. We require that detailed information be set forth in the budget. Among other items, we request information as to the developer's responsibilities for assessments and subsidizing the project's operations, and additional details pertaining to the following: the party who prepared the budget; the methods

used to maintain the integrity of budget accounts; the projected monthly cash flow; and the amount of the initial working capital, indicating the formula by which it is calculated. We have developed a recommended form for the budget which reflects various items that should be contained in the budget at a minimum. With particular reference to condominium conversions, we require, for comparison purposes, actual operating statements for the last two years.

As your letter suggests, provisions made for reserves for replacement of major project components are a particularly important element of the budget review process for condominium conversion projects. The proposed budget form mentioned above is intended to generate very specific information on reserves for replacement.

We inspect each project, review the engineer's or architect's report and consider projections of remaining life of major project components. FNMA usually requires the establishment of an adequate reserve fund for the periodic maintenance, repair and replacement of common areas and limited common areas, if maintained by the owners association. This fund is required to be initially funded by the developer in an amount consistent with the estimated remaining life of project components. Thereafter, in all cases, the reserve fund is required to be maintained out of regular assessments for common expenses.

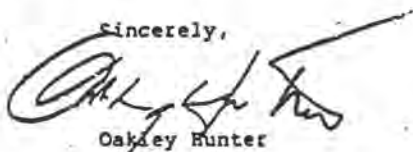
f. Owner-occupant and investor purchase rules - What are your rules to insure that units will be occupied as primary residences by owner-occupants? How are these rules enforced?

FNMA has established a requirement for owner-occupancy under its contract with the FNMA-approved mortgage seller. This requirement applies generally to FNMA's conventional single family mortgage purchase programs, including the purchase of unit mortgages in condominium and PUD projects. The only exceptions to FNMA's owner-occupancy requirement are mortgages on 2-4 family properties (including units in a de minimis PUD or PUD project) and single family urban properties which may be non-owner occupied. FNMA's waiver of its requirement for owner-occupancy is designed to attract greater equity investment in 2-4 family properties and single family urban properties; but investor-owners are required to make larger downpayments and the mortgages on such properties must generally have shorter maturity periods.

The method by which FNMA enforces this requirement is to require that each borrower execute an affidavit which reflects his/her intention to occupy the property as their primary residence. This statement is made on the Affidavit of Purchaser and Vendor (FNMA Form 1009) which is usually executed at the time of closing of the loan. In addition, the borrower must make a similar certification in the Residential Loan Application form (FNMA Form 1003) which is completed by the borrower at the time of loan application. Generally, private mortgage insurance companies require evidence of owner-occupancy which may consist of an affidavit or certification provided by the borrower in the form indicated above.

Your letter also reflects the view that FNMA standards are often the only standards protecting consumers in the area of conversions. While FNMA's mortgage underwriting and legal criteria for condominium projects generally are often parallel to consumer interests, the legislative efforts of many state and local governments should not be discounted. Many of the jurisdictions experiencing the greatest amount of condominium development activity have addressed particular areas of consumer abuse by enacting legislation which provides various forms of consumer protection and disclosure requirements applicable to the sale of condominium and cooperative units. For example, the Uniform Condominium Act (UCA) was recently adopted by the states of West Virginia, Pennsylvania and Minnesota. The UCA contains a separate article dealing with consumer protection and substantial disclosures which must be made by the developer for the benefit of condominium unit purchasers. It is anticipated that the UCA will be widely adopted by various states and it has been introduced in several state legislatures.

Sincerely,



Oakley Hunter



1457

## The Mortgage Corporation

Federal Home Loan Mortgage Corporation  
1776 G Street NW, P.O. Box 37248  
Washington, D.C. 20013 (202) 789-4700

December 10, 1980

Mr. Theodore J. Jacobs  
General Counsel  
Subcommittee on Commerce, Consumer  
and Monetary Affairs  
B-377 Rayburn House Office Bldg.  
Washington, D.C. 20515

Dear Ted:

I am writing in response to questions you raised in our last telephone conversation and to state for the record issues discussed at the meeting you attended in our office on October 14, concerning the Federal Home Loan Mortgage Corporation's owner-occupancy policy. In our meeting, various members of the Mortgage Corporation staff explained to you our policies and procedures with regard to condominium loan purchases and, specifically, the corporation's owner-occupancy purchase policy.

As we discussed at that time, the corporation's basic policy with regard to our purchase programs is to purchase investment quality mortgages in the most cost effective manner. We rely on a system of warranties with which the lender must comply. As a condition of purchase, each lender must certify its compliance with numerous conditions that are specified in the corporation's sellers' guides. These warranties are a contractual relationship between the corporation and its seller/servicers. Any mortgage loan which has warranty violations associated with it is subject to substitution or repurchase by the seller.

Prudent underwriting by our regional personnel provides assurance that we are purchasing investment quality loans. The corporation strives to maintain a high volume of purchases of investment quality loans in order to generate additional funds for housing. In reviewing loans submitted to the corporation for purchase, information such as loan applications, credit reports and appraisals, are reviewed on an individual loan basis. Other information which is not reviewed on an individual loan basis, due to limited resources and time, is covered by our system of lender warranties. The low level of defaults on loans purchased by the corporation supports the validity of this system. The particular warranties regarding owner-occupancy, as outlined in previous correspondence, are an example.

The corporation's policy is to purchase only those mortgage loans on properties which will be owner-occupied. The corporation requires lenders to make certain warranties in this area. The warranties regarding owner-occupancy can be broken down into three major categories. The first two categories involve the percentage of owner-occupied units in condominium and PUD projects (80 percent in Class I and 60 percent in Class II) and the third category relates to owner-occupancy of each individual home securing the loan we purchase.



Prudent underwriting on individual loans is, therefore, the key to enforcement of these owner-occupancy policies and the seller's warranties are limited to matters which are generally within its own knowledge and control. While we rely on the warranty of sellers as to the percent of owner-occupancy within the project, we rely most heavily on the owner-occupancy of the individual unit.

On individual home loans submitted for purchase to the corporation, lenders specifically warrant that: "To the best of seller's information and belief, at least one of the property owners, as of the delivery date, is occupying all or part of the mortgaged premises as his/her primary residence and the owner is an individual or individuals."

Underwriters may consider various factors in evaluating whether a property will be used as the borrower's primary residence. For example, the underwriter may question whether the property is relatively convenient to the owner's principal place of employment or if the property possesses the physical characteristics to accommodate the owner's immediate family.

In your letter of September 26, you asked for specific information on "Field Inspections" conducted by the corporation. The corporation requires project inspections on all Class I projects at the time of delivery of the first loan or at the request of a lender prior to the delivery of the loans. This inspection is designed to verify information submitted by the lender as well as to consider the physical condition and quality of the improvements, including the location, appeal, management, and marketability of the project.

Indications of an unacceptable percentage of nonowner-occupancy (as prescribed in the warranties) during this inspection would lead to rejection. For example, the frequency of "For Rent" signs within the project would alert the underwriter making the inspection to the possibility of a high rate of nonowner-occupancy. The inspection process does not provide for our inspection of each individual unit for owner-occupancy. The staffing expense and time required for field inspections in order to ascertain owner-occupancy would be enormous, and is not necessary or cost-effective in light of the warranty/underwriting method used in the purchase of loans used by the corporation.

When loans are submitted in either Class I or Class II projects they are subjected to individual underwriting. A mortgage submission voucher (Form 13) submitted by the seller indicates whether the property is owner-occupied. If it is indicated that the property is not owner-occupied, the loan is declined. Again, the seller warrants that to the best of seller's information and belief, the unit is owner-occupied at the time of delivery. Prudent underwriting should lead the underwriters to the conclusion that the homeowner should occupy the property or the loan is rejected. Field inspections are not performed on individual properties to determine owner-occupancy. Individual one to four family properties are selected for inspection on an adverse selection basis,

While simply refers to the process by which our underwriters, during review of the loan file, cite unusual conditions or circumstances which require inspection in the field. If the condition that precipitated the inspection appears to be detrimental to the investment quality of the loan, or violates the warranties, the underwriter may require rejection or repurchase of the loan.

We contacted each of our regional offices to determine whether the corporation has purchased loans in the projects listed on the schedule attached to Representative Rosenthal's letter of September 26, 1980. As we discussed in our meeting, we are unable to retrieve information from our computer on specific projects, and are therefore unable to absolutely confirm or deny in which projects we have purchased loans. However, based on the memories of our regional personnel and information contained in regional project files, we believe that regional staff inspected the following 11 projects of those listed on the aforementioned schedule:

- |   |  |
|---|--|
| 1. 3800 Lake Shore Drive<br>Chicago, Illinois                         | 7. Grosvenor Park<br>10500 Rockville Pike<br>Rockville, Maryland         |
| 2. Countryside Apartments<br>1010 Sterling Road<br>Palatine, Illinois | 8. Chatham Village of Memphis<br>5881 Park Avenue<br>Memphis, Tennessee  |
| 3. Turtle Creek North<br>3701 Turtle Creek Boulevard<br>Dallas, Texas | 9. Georgetown of Nashville<br>502 Hillsboro Road<br>Nashville, Tennessee |
| 4. The Park Lane<br>460 S. Marion Parkway<br>Denver, Colorado         | 10. Royal Oaks<br>4505 Harding Road<br>Nashville, Tennessee              |
| 5. Embassy House<br>1250 Humboldt Street<br>Denver, Colorado          | 11. Windsor Tower<br>4215 Harding Road<br>Nashville, Tennessee           |
| 6. Cheesman Tower West<br>1200 W. Humboldt Street<br>Denver, Colorado |  |

Of the 64 projects listed in your letter of September 26, our underwriters recall purchasing loans in only seven of the projects, as follows:

1. 3800 Lake Shore Drive
2. Grosvenor Park
3. Chatham Village of Memphis
4. Georgetown of Nashville
5. Royal Oaks
6. Windsor Towers
7. Turtle Creek North

1460

Although we inspected the three Denver projects, to the best of our knowledge, no loans from these projects have been submitted for purchase.

As requested, enclosed are all of the available inspection reports for the previously listed eleven projects.

I hope this information will be useful to you. If you have any questions, please call me.

Sincerely,



Tessa C. Morris  
Director of Legislative Analysis

Enclosure

TCH/dh

1-4 FAMILY PROPERTY INSPECTION REPORT

Federal Home Loan Mortgage Corp.

Origin: First Federal Savings & Loan of Wilmette

Borrower: Countryside Condos

Property Address: Starling St. Between NW Hwy and Sundes

Address Checked: \_\_\_\_\_

City: Palatine

State: Illinois

Zip Code: \_\_\_\_\_

Purchase Price: \$ 30-40,000

Loan Amount: \$ \_\_\_\_\_

Interest Rate: \_\_\_\_\_ %

Term: \_\_\_\_\_ Yrs.

APPRAISALS

Less	Land	Costing Living Area Replacement Cost	Appraised Value
	\$ _____	<u>None</u> = \$ _____	\$ _____

FIELD REPORT

Loan to Value Ratio: (Lower of Purchase Price or Appraised Value) \_\_\_\_\_ %

Typical Property: Condos and Apartments Age 0 Value \$ 35,000.00 avg.

Condition of Neighborhood: ☒ Improving ☐ Stable ☐ Static ☐ Declining

RATING

LOCATION

	Poor	Fair	Imp.	Good	Excell.
Location				<input checked="" type="checkbox"/>	
Proximity to Hwy, Sch.				<input checked="" type="checkbox"/>	
Attractiveness				<input checked="" type="checkbox"/>	
Community Facilities			<input checked="" type="checkbox"/>		

PROPERTY

	Poor	Fair	Imp.	Good	Excell.
Condition-Exterior					<input checked="" type="checkbox"/>
Condition-Interior					<input checked="" type="checkbox"/>
Conformity to Neighborhood					<input checked="" type="checkbox"/>
Appeal & Marketability					<input checked="" type="checkbox"/>

Overall desirability for lending purposes: ☐ Excellent ☒ Good ☐ Average ☐ Fair ☐ Poor

Loan Appraisal: ☐ Excessive ☐ Maximum ☐ Average ☐ Conservative

Acceptance of security and loan recommended: ☐ Yes ☐ No (If no, explain)

If Seller's Photographs are not descriptive take additional photographs.

Comments:

Proposed 256 unit condo project - 128 up and near completion - 30 sold- Moderate amenities

completed except for tennis courts - \$50/sq. ft. - Decent sized units - Part of a large

apartment complex - will need at least 64 sales before considering purchases.

Inspected By: J.E.L.

Date: 5/20/75

Reviewed By: \_\_\_\_\_

Date: \_\_\_\_\_

FHLMC 352 (5/72)

Digitized by Google

1462



## 1-4 FAMILY PROPERTY INSPECTION REPORT

Seller: Suburban Coastal Borrower: Beasley  
Property Address: 3701 Turtle Creek North Subdivision/Project: Turtle Creek North  
City: Dallas State: TX Zip Code: 75219  
Loan No. 09-132121-2 Contract No. 09-6-00148-6 Control Date: 01/30/79  
Purchase Price \$ \_\_\_\_\_ Loan Amount \$ 59000 Term: 30 Yrs. LTV: 80 %  
Date of Loan \_\_\_\_\_ Land Value \$ \_\_\_\_\_ Appraised Value \$ 83000  
Improvements: No. Units 1 Gross Living Area 1160 sq. ft. Room Count: Rms. 4 BR 2 B 2  
Comments or Instructions to Inspector: \_\_\_\_\_

## FIELD REPORT

NOTE: FHLMC does not consider the racial composition of the neighborhood to be a relevant factor and it must not be considered in this report.

Present Nearby Land Use: ☐ Single Family ☐ 2-4 Family ☒ Other: Condo/Apt  
Describe Any Nearby Incompatible Land Use: None - adjacent vacant land  
apt/condo  
Describe Any Factor, Favorable or Unfavorable, Affecting Marketability: None - desirable  
Neighborhood

SITE ACCEPTABILITY				PROPERTY ACCEPTABILITY			
GOOD	FINE	FAIR	POOR	GOOD	FINE	FAIR	POOR

Comments (including those items rated fair or poor): \_\_\_\_\_

Comparable Sales Inspected ☐ NO ☒ YES All ☒ Comp. No. 1 \_\_\_\_\_ Comp. No. 2 \_\_\_\_\_ Comp. No. 3 \_\_\_\_\_  
Appraised Value Appears ☐ Conservative ☒ Realistic ☐ Excessive  
Comments: \_\_\_\_\_

FEE INSPECTOR: Attach a descriptive photograph of subject property and any additional photos if warranted.  
Inspector's Signature: [Signature] Date: 2/15/79

FOR FHLMC USE ONLY  
Acceptable Loan Security ☒ Yes ☐ No. If "No" explain: \_\_\_\_\_

Reviewer's Signature: [Signature] Date: \_\_\_\_\_  
FHLMC 303 07/78

PROJECT INSPECTION REPORT

PROJECT NAME	EMBASSY HOUSE		DEVELOPER	AMERICAN INVESCO	
LOCATION	265 Humbolt	Denver	Denver	CO	80218
	Street	City	County	State	Zip Code

INSPECTION COVERS PHASE(S) \_\_\_\_\_ ☒ TOTAL PROJECT  
PER APPRAISAL DATED \_\_\_\_\_ ANY ADVERSE OR QUESTIONABLE ITEMS OR DISCREPANCIES NOTED  
DURING INSPECTION: \_\_\_\_\_

DRIVING DIRECTIONS:

[illegible]

TOTAL SALES LAST 6 MONTHS IF ON MARKET MORE THAN 1 YEAR N/A 41-5-79

SALES RATE	EXCELLENT	GOOD	<del>X</del> SLOW	POOR	EST. ABSORPTION TIME	UNSOLD UNITS	NO.
------------	-----------	------	-------------------	------	----------------------	--------------	-----

ANY RESALES: ☒ NONE ☐ YES RESALE PRICES STABLE ☐ INCREASING ☐ DECLINING  
NO. OF UNITS LISTED FOR SALE N/A TO TOTAL PROJECT AND/OR PHASE — — 3

SALES CONCESSIONS NONE ☒ YES (DESCRIBE) 5% TENANT DISCOUNT - ~~24~~ ONLY 5 TEN  
GENERAL COMMENTS OR ANY DETRIMENTAL SALES INFLUENCES:

PROJECT UNIT MIX	PRICE PER APPR. DATED	PRICE AS OF INSPECTION	= GR - FROM APPR. DATE	PLANNED	SOLD	LOMP.	UNDER CONST.
1B-1B		See		15	4		
2B-2B		ATTACHED		30			
3B-2B		LIST		50	2		
Perthouse				2	2		
			TOTALS	75	12		

ANY SLOW SELLING UNITS? X NONE \_\_\_ YES (COMMENT)

REMARKS: \_\_\_\_\_

1464

THIS PROJECT ENJOYS A GOOD LOCATION, CLOSE TO DOWNTOWN DENVER. THE AREA SURROUNDING THE SUBJECT IS UNDERGOING EXTENSIVE RENOVATION OF PROPERTIES.

THIS IS A "LUXURY" CONVERSION. PRICES RANGE FROM \$57,800 TO \$73,200 FOR THE PENTHOUSE.

THE INTERIOR RENOVATION HAS BEEN EXTENSIVE. NEW LOBBY, HALL CARPET & PAINT, ENCLISING OF POOL. THE SECURITY SYSTEM IS EXCELLANT.

THE PARKING IS OWNED BY THE H.O. ASSOCIATION AND IS TO BE RENTED TO UNIT OWNERS ON A MONTH TO MONTH BASIS. THIS IS NOT TYPICAL OF THIS MARKET AND MAY ACCOUNT FOR SOME OF THE SLOW SALES TO DATE.

THE SALES TO DATE HAVE NOT REFLECTED A GOOD MARKET ACCEPTANCE. PART OF THE REASON I BELIEVE IS THE HIGH SALES PRICES. THERE ARE ONLY ABOUT 4 "LUXURY" PROJECTS TO PROVIDE COMPETITION.

THE PROJECT IS GOOD AND SHOULD NOT HAVE ANY PROBLEMS - BUT WILL PROBABLY TAKE ABOUT 12-18 MONTHS TO SELL OUT.

ABOUT 1/2 THE SALES HAVE BEEN FOR CASH.

CONSTRUCTION QUALITY ☒ GOOD   AVERAGE   FAIR   POOR

DESCRIBE COMMON ELEMENTS OR RECREATION FACILITIES:

ARE THEY EXTENSIVE? ☒ NO   YES (IF YES, COMPLETE AN ANALYSIS OF BUDGET ADEQUACY)

☒ COMPLETE   INCOMPLETE   ☒ ADEQUATE   INADEQUATE   LEASED

SENSITIVITY   PARKING FACILITIES: RATIO 1-2 : 1   ☒ COVERED & ☒ OPEN

APPEARS ADEQUATE ☒ YES   NO

ADDITIONAL COMMENTS: For this location

HOA NAME EMBASSY HOUSE H.O. ASSOC ☒ SINGLE REGIME   MULTIPLE REGIME

CONTROLLED BY OWNERS

RESPONSIBILITIES OF HOA: ☒ EXTERIOR MAINT.   ☒ POOL   CLUBHOUSE   TENNIS COURTS

☒ DRIVES   OTHER: HANDBALL COURT

NAME AND RESPONSIBILITIES OF MASTER HOA:

MONTHLY ASSESSMENT \$ 500.00 IS IT COMPETITIVE WITH SIMILAR PROJECTS? ☒ YES   NO

TO PROPERLY MAINTAIN PROJECT AND PROVIDE SERVICES, ASSESSMENT IS HIGH   ADEQUATE   INADEQ

MANAGEMENT GROUP: OWNERS ASSOC.   ☒ MANAGEMENT AGENT   OTHER

QUALITY OF MANAGEMENT APPEARS: ☒ SUPERIOR   GOOD   ADEQUATE   QUESTIONABLE

AMOUNT OF DUES CONTRIBUTED BY DEVELOPER: PER

CC. ENTS (INCLUDING ADEQUACY OF FACILITIES FOR PROJECT):

OVERALL DESIRABILITY OF PROJECT: EXCELLENT   ☒ GOOD   AVERAGE   FAIR   POOR

PRESALE MAIVER RECOMMENDED YES   ☒ NO

ACCEPTANCE OF PROJECT PHASE(S):

NO (CONDITIONS IF ANY FOR RECONSIDERATION):

☒ YES (SUBJECT TO): 1) WTY LTR 2) U/W OF INDV. LOANS

FORM 465 DATE   ADDENDUM A   ADDENDUM B   ADEQUACY

WARRANTY LETTERS FROM: S/S   DATE   WAIVERS GRANTED?

INSPECTED BY DB   DATE 1-5-79   REVIEWED BY DB



1466

✓ EMBASSY HOUSE - 1-5-78

CURRENT SALES INFO		AVAIL	SOLD	TENANT SALES
3BD/2B		30	-	
2BD/2B		30	-	
1BD/1B		15	-	
PENTHOUSE		2	-	
		77		14 - 5 TENANT SALES

MARKETING STD 12-6-78 (TENANTS) - (12-21-OUTSIDE)

TENANT DISC - 5%

ALSO UNEXP LEASE PORTION

# OF LEASED GARAGE SPACES? 14

ADJ OF NO. DUES TO COVER RESERVES? OK

INC. NOW IS \$217,000 ⇒ (2) DUES NOW ⇒

1/2 CASH SALES -

GOOD PROJECT BUT WILL HAVE LONGER SELL  
OUT THAN 6-9 MO. ON APPRAISAL.

1467

1/10/80. 11 units in inventory  
upm loan submissions!

1st inspection 10/16/79  
Re-inspection #

PROJECT INSPECTION REPORT

The Mortgage Corporation

PROJECT NAME CHEESEMAN Tower West DEVELOPER AMERICAN INTESCO  
LOCATION 1200 Humboldt St. - DENVER Co CO  
Street City County State Zip Code

INSPECTION COVERS PHASE(S) X TOTAL PROJECT  
PER APPRAISAL DATED                      ANY ADVERSE OR QUESTIONABLE ITEMS OR DISCREPANCIES NOTED  
DURING INSPECTION:                     

DRIVING DIRECTIONS:                     

PROJECT TYPE: CONDO X CONDO CONVERSION PUD DEMIMINUS PUD SFR  
UNIT TYPE: SFD TH WALK-UP H/D RISE X HIGH RISE QUADRO 14 stories

SALES ANALYSIS

15 pull Bldg.

PHASE NO.	DATE FIRST OFFERED	DATE OF LAST SALE	AVG. SALES PER MONTH	PLAN- NED	COMP.	UNDER CONST.	RENTED	SOLD	% SOLD
1 Bed					19			19	50%
2 Bed					49			49	50%
3 Bed					4			4	100%
TOTALS					72			63	88%

TOTAL SALES LAST 6 MONTHS IF ON MARKET MORE THAN 1 YEAR                     

SALES RATE EXCELLENT X GOOD SLOW POOR EST. ABSORPTION TIME UNSOLD UNITS MO.  
ANY RESALES: 0 NONE YES RESALE PRICES STABLE INCREASING DECLINING

NO. OF UNITS LISTED FOR SALE 9 TO TOTAL PROJECT AND/OR PHASE 12 3

SALES CONCESSIONS NONE X YES (DESCRIBE) Tenants - 5% discount + 10% Rental

GENERAL COMMENTS OR ANY DETRIMENTAL SALES INFLUENCES Unit towards sales price reduction

4.2 tenants did purchase in project + 5% tenant guarantee  
which is an excellent record

PROJECT UNIT MIX	PRICE PER APPR. DATED	PRICE AS OF INSPECTION	* OR - FROM APPR. DATE	PLAN- NED	SOLD	COMP.	UNIT FEE
1 Bed	West view	\$5,500				10	137-
1 Bed	East view	70				9	135-
2 Bed	North view					10	190-
2 Bed	South view					9	194-
2 Bed	North view					9	183-
2 Bed	South view					9	191-
3 Bed		129,000	TOTALS			4	277-

ANY SLOW SELLING UNITS? X NONE YES (COMMENT) 72 units total

COMMENTS: Units in this project are being marketed AS IS - demolition  
to fill and continuous and 0 walkways throughout in complete  
and there will be no alterations.  
Beautiful floor space, approx. 4 floors base of unit.  
\$1,000/FLOOR INCREASE - 2 BED - \$500/F2 - 1 BED.

CONSTRUCTION QUALITY: GOOD AVERAGE FAIR POOR *Eliminate Central Boiler*  
 DESCRIBE COMMON ELEMENTS OR RECREATION FACILITIES: *Pool - Sandbar - Party room off P. Bar*  
 ARE THEY EXTENSIVE? NO YES (IF YES, COMPLETE AN ANALYSIS OF BUDGET ADEQUACY) *House down - Landscaping - Concrete*  
 COMPLETE INCOMPLETE ADEQUATE INADEQUATE LEASED  
 DENSITY: *85* *appears* PARKING FACILITIES: RATIO *1.16* : 1 *60* COVERED *19* OPEN *6* *Carports*  
 ADDITIONAL COMMENTS: *Parking - 1 space - is filled with knit -*  
*Underground car available on first come basis - then Carport*  
*open spaces - also about parking is available*

HOA NAME: *Chesapeake Town Center* NO HOA SINGLE REGIME MULTIPLE REGIME  
 CONTROLLED BY: OWNERS *Developer presently*  
 RESPONSIBILITIES OF HOA: *EXTERIOR MAINT. POOL CLUBHOUSE TENNIS COURTS*  
 DRIVES *Other: Sprinkler system only*  
 NAME AND RESPONSIBILITIES OF MASTER HOA: *There is a Parkview HOA on each*  
*floor 10 stories - 10 stories - 10 stories*

MONTHLY ASSESSMENT: *period* IS IT COMPETITIVE WITH SIMILAR PROJECTS? YES *See comments*  
 TO PROPERLY MAINTAIN PROJECT AND PROVIDE SERVICES, ASSESSMENT IS *High* ADEQUATE INADEQ  
 MANAGEMENT GROUP: OWNERS ASSOC. MANAGEMENT AGENT OTHER  
 QUALITY OF MANAGEMENT APPEARS: SUPERIOR GOOD ADEQUATE QUESTIONABLE  
 AMT OF DUES CONTRIBUTED BY DEVELOPER: PER  
 COMMENTS (INCLUDING ADEQUACY OF FACILITIES FOR PROJECT):  
*Assess per no previous appear quite high and some budget items*  
*appear high - no problem with adequacy*

OVERALL DESIRABILITY OF PROJECT: EXCELLENT *X* GOOD AVERAGE FAIR POOR  
 PRESALE WAIVER RECOMMENDED YES *X* NO  
 ACCEPTANCE OF PROJECT PHASE(S):  
 NO (CONDITIONS IF ANY FOR RECONSIDERATION):

YES (SUBJECT TO):  
 (1) *RAIL FENCE WARRANTIES*  
 (2) *Individual W/O of each lot*  
 (3) *Certification from Engineer's Completion* all  
 (4) *Plan documents in Engineer's possession and will be*  
 (5) *Documentation complete for fire paid by Developer only*  
*these questions will be in the Engineer's possession for due date*

FORM 465 DATE: ADDENDUM A: ADDENDUM B: ADEQUACY *and cost*  
 WARRANTY LETTERS FROM: S/S DATE: WAIVERS GRANTED?

INSPECTED BY: *Jessie B. Brown* DATE: *10/31/79* REVIEWED BY: \_\_\_\_\_

Marketing of Individual units are all AS IS -  
 However, units are in overall good condition  
 Cabinets are of better quality and appear previous  
 owners painted units as needed - Carpets in  
 good shape on units viewed - A number  
 of the tenants in the Building have purchased  
 their units! 42 tenants vs 58% acceptance of  
 72 units - Sales to date are 63 units total.  
 Units have good floor plans and Excellent  
 Cabinet (kitchen type) Built-ins.

Budget - appears more than adequate  
 and a large item is salaries of maintenance personnel  
 Salaries appear rather high but in line with comparable  
 projects used.

H/W units are individual 1 per unit. Separate  
 Electrical Meters for individual units. Heating  
 is Central H.W. System Boiler.

Appraisals should be looked at closely  
 upon presentation of loans for purchase -  
 Some adjustments on some of the  
 samplings appear high - Dismissal with  
 only the large 3 bed unit appraisal which  
 appears questionable regarding time adjustment  
 see notes made on sampling submitted -

# PROJECT INSPECTION REPORT

1st inspection 1-1-74  
Re-inspection # \_\_\_\_\_

PROJECT NAME The Parklane DEVELOPER American Innsco  
LOCATION 460 S. Marion Pl DENVER, CO  
Street City County State Zip Code

INSPECTION COVERS PHASE(S) 9-13-79 TOTAL PROJECT ✓  
 APPRAISAL DATED 9-13-79 ANY ADVERSE OR QUESTIONABLE ITEMS OR DISCREPANCIES NOTED  
 DURING INSPECTION:

LIVING DIRECTIONS:

PROJECT TYPE: CONDO CONDO CONVERSION PUD DEMINIMUS PUD SFR  
HIT TYPE: SFD TH WALK-UP MID RISE HIGH RISE QUADRO

## SALES ANALYSIS

PHASE NO.	DATE FIRST OFFERED	AGE OF LAST SALE	AVG. SALES PER MONTH	PLAN-MED	COMP.	UNDER CONST.	RENTED	SOLD	\$ SOLD
2-11	1-27-69	11-79	27.75	347			50	310	89
TOTALS				347				310	89

TOTAL SALES LAST 6 MONTHS IF ON MARKET MORE THAN 1 YEAR

SALES RATE	✓ EXCELLENT	GOOD	SLOW	POOR	EST. ABSORPTION TIME	UNSOLD UNITS	NO.
ANY RESALES:	✓ NONE	YES	RESALE PRICES	STABLE	INCREASING	DECLINING	

NO. OF UNITS LISTED 3 TO TOTAL PROJECT AND/OR PHASE B  
SALES CONCESSIONS NONE ☒ YES (DESCRIBE) to receive a credit of 5% plus 130%  
GENERAL COMMENTS OR ANY DETRIMENTAL SALES INFLUENCES: the 74 rent - plus 130% plus 5% discount  
to 40 residents who had put down a \$10,000 deposit on July 20, 11, 1968  
to 5% discount plus credit of the monthly dues they had paid from resident group  
to 120 units  
Brochure for sale

[illegible]

Disagrees with performance to date

Discrete time performance is poor

11/18/13 3/7 40 all

Performance is poor

Performance is poor

Large conversion project with an excellent location - right next to Washington Park, close to downtown, good access on a Parkway. These are "luxury" type units with good floor plans, plenty of closet + storage space. Developers have done a good job of renovating the common elements but the units ~~are~~ are actually sold "as is" with thorough cleaning + touch-up if necessary. The units appeared to be in Average Condition + evidently the lack of extensive renovation to the units has had little effect on marketability due to the rapid sell out + 40% (13%) of the units were sold to tenants. This was a successful rental project with no vacancy problems.

Rec facilities are all upgraded, very extensive, + nice. Appeal is to the young professionals as well as well as retirees or "empty nesters" with a good income.

There are 16 hotel or guest suite units ranging in size from 259 sq ft to 630 sq ft which will be retained by the developer and will be available for lease on a daily basis by guests of unit owners. These are basically hotel type rooms with a bath + tiny kitchenette.

The Developers are evidently well experienced in converting condominiums - having done quite a number across the country. Considering their expertise the excellent location + sales record this should be a successful project for the foreseeable future.

They did not take the monthly dues paid if the parking space because they provided free parking - and the parking lot did not always have enough spaces. This would be to provide the parking. This should not be a problem. The parking space is not a problem. The parking space is not a problem. The parking space is not a problem.

1472

CONSTRUCTION QUALITY ☒ GOOD ☐ AVERAGE ☐ FAIR ☐ POOR  
 ARE COMMON ELEMENTS OR RECREATION FACILITIES: Outdoor & indoor swimming pool, tennis courts, clubhouse, billiard room, table tennis room, etc. (all these common elements are covered by the same company)  
 KEY EXTENSIVE? ☐ NO ☒ YES (IF YES, COMPLETE AN ANALYSIS OF BUDGET ADEQUACY)  
 COMPLETE ☐ INCOMPLETE ☒ ADEQUATE ☐ INADEQUATE ☐ LEASED ☐ DISCOVERED ☒ OPEN  
 RATIO 40.9 PARKING FACILITIES: RATIO 1.116 ☒ DISCOVERED ☐ OPEN  
 APPEARS ADEQUATE ☒ YES ☐ NO  
 ADDITIONAL COMMENTS: The developer has provided a parking area for the project. The parking area is located on the north side of the project. The parking area is paved and has a concrete curb. The parking area is located on the north side of the project. The parking area is paved and has a concrete curb.  
 NAME Port Lane Condominium Assoc. ☒ SINGLE REGIME ☐ MULTIPLE REGIME  
 CONTROLLED BY OWNERS  
 RESPONSIBILITIES OF HOA: EXTERIOR MAINT. POOL CLUBHOUSE TENNIS COURTS  
 DRIVES OTHER Truck storage, storage room, hallways, entry, laundry, etc. (all these are covered by the same company)  
 AND RESPONSIBILITIES OF MASTER HOA: parking area, garage, party room, which bar & kitchen.  
 FINANCIAL ASSESSMENT 5.22-0.11 IS IT COMPETITIVE WITH SIMILAR PROJECTS? ☒ YES ☐ NO  
 PROPERLY MAINTAIN PROJECT AND PROVIDE SERVICES, ASSESSMENT IS HIGH ☒ ADEQUATE ☐ INADEQUATE  
 MANAGEMENT GROUP: OWNERS ASSOC. ☒ MANAGEMENT AGENT ☐ OTHER ☐  
 IF MANAGEMENT APPEARS: SUPERIOR ☒ GOOD ☐ ADEQUATE ☐ QUESTIONABLE  
 UNIT DUES CONTRIBUTED BY DEVELOPER: PER  
 COMMENTS (INCLUDING ADEQUACY OF FACILITIES FOR PROJECT): Item on item are not great, but overall budget appears adequate (except for the fact they have done the replacement reserve fund in a 10 year period).  
 OVERALL DESIRABILITY OF PROJECT: EXCELLENT ☒ GOOD ☐ AVERAGE ☐ FAIR ☐ POOR  
 SALE WAIVER RECOMMENDED: YES ☒ NO Already met  
 EXTENT OF PROJECT PHASE(S):  
 NO (CONDITIONS IF ANY FOR RECONSIDERATION):  
 YES (SUBJECT TO): (1) Certification that all reports recommended in the report have been done. (2) The developer has provided a parking area for the project. The parking area is located on the north side of the project. The parking area is paved and has a concrete curb.  
 (2) Homeowners dues paid for tenant/purchasers; Certification of:  
 A. Payment of dues to the Homeowners Association from the developer.  
 B. Letter addressed to the tenant purchaser regarding due date of commencement of his contribution and the monthly amount to be paid with copy of letter given to Homeowners Association for proper record.  
 (5) Any tenant discounts, concessions or payment of Homeowners dues by developer must be considered as a reduction of the purchase price.

1-4 FAMILY PROPERTY INSPECTION REPORT

Underwriter's Initials

C-385-MD

LPD

10-25

RM

The Mortgage Corporation

Equal Housing Lender

Loan No.

11-144891-1

Contract No.

01-1-06078-6

Control Date

101279

Funding Date

110179

Seller

DOMINION FEDERAL S&L ASSN

Borrower

STEER CLIFFORD J

Property Address

10201 GROSVENOR PLACE 1420

Project

GROSVENOR PARK

City

ROCKVILLE

State

MD

Zip Code

20852

Purchase Price \$

76,000.00

Loan Amount \$

60,800.00

Term

30.0

Yrs. LTV

79.86

Appraised Value \$

70,000.00

Land Value \$

0.00

Date of Note

061579

Improvements: No. Units

1

Gross Living Area

101000

sq. ft.

Room Count: Rms

04

BA

02

Baths

00

Instructions to Inspector: Inspect Comparable Sales:

☐ NO ☐ YES All

Comps. No.1

No. 2

No. 3

NOTE: FHLBC does not consider the noted exceptions of the neighborhood to be a relevant factor and it must not be mentioned in this report.

Predominant Nearby Land Use: ☐ Single Family ☐ 2-4 Family ☒ Other: CONDO

Describe those factors, favorable or unfavorable, affecting marketability (e.g. public parks, schools, noise, view, nearby incompatible land use): LOCATED OFF ROCKVILLE PIKE CLOSE TO 495/270. THIS PHASE WAS CONVERTED 7 YR AGO AND IS COMPLETELY SOLD OUT. APPEARS WELL MAINTAIN AND ACCEPTED BY MARKET DUE TO DESIRABLE LOCATION.

SITE ACCEPTABILITY					PROPERTY ACCEPTABILITY				
GOOD	AVG	FAIR	POOR		GOOD	AVG	FAIR	POOR	

Comparable Sales Inspected: ☒ NONE ☐ ALL Comp. No. 1

Appraised Value Appears ☐ Conservative ☒ Realistic ☐ Excessive Comp. No. 2

Comp. No. 3

Describe any items rated fair or poor or others which affect marketability:

FEE INSPECTOR: Attach a descriptive photograph of subject property and any additional photos if warranted.

Inspector's Signature

Date 11/23/79

Acceptable Loan Security

☒ Yes ☐ No. If "No" explain:

FOR FHLBC USE ONLY

Reviewer's Signature

Date 11/26/79



1474

## 1-4 FAMILY PROPERTY INSPECTION REPORT



Underwriter's Initials: J.E.

Loan No. 04-156669-9 Contract No. 04-1-12769-2 Control Date 872284 Funding Date 069786

Seller: GERMANTOWN TRUST, S.A. Borrower: COLLINS, J. H.

Property Address: 1211 CHAMBERLAIN Project: Chatham Village Condoms

City: MEMPHIS State: TN Zip Code: 37138

Purchase Price \$ 35,000.00 Loan Amount \$ 31,500.00 Term: 30 Yrs. LTV: 89.71

Appraised Value \$ 37,500.00 Land Value \$ 8.00 Date of Note 101379

Improvements: No. Units 1 Gross Living Area 981.58 sq. ft. Room Count: Rms. 85 BR 82 Baths 1.5

Instructions to Inspector: Inspect Comparable Sales: ☐ NO ☐ YES All Comps. No. 1 No. 2 No. 3

## REPORT

NOTE: FILMIC does not consider use of this form a condition of the neighborhood to be subject to special taxation.

Predominant Nearby Land Use: ☒ Single Family ☐ 2-4 Family ☒ Other: 314 SE 70th St - 4 Condo

Describe those factors, favorable or unfavorable, affecting marketability (e.g. public parks, schools, noise, view, nearby incompatible land use): A solid and comfortable conversion featuring great courtyard

area, clubhouse, etc. at affordable prices for middle income

purchasers. Located near City Park.

SITE ACCEPTABILITY	GOOD	AVG	POOR	POOR
Site	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Topography/Drainage/View	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Street Access/Condition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

PROPERTY ACCEPTABILITY	GOOD	AVG	POOR	POOR
Exterior Condition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Compatibility to Neighborhood	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Appraisal & Marketability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comparable Sales Inspected: ☐ NONE ☒ ALL Comp. No. 1 Comp. No. 2 Comp. No. 3Appraised Value Appears ☐ Conservative ☒ Realistic ☐ Excessive

Describe any items rated fair or poor or others which affect marketability: None

FEE INSPECTOR: Attach a descriptive photograph of subject property and any additional photos if warranted.

Inspector's Signature: [Signature] Date: 8-1-80

FOR FILMIC USE ONLY

Acceptable Loan Security ☒ Yes ☐ No. If "No" explain:

Reviewer's Signature: [Signature] Date: 8-5-80

FILMIC 308 1/79

1475

1-4 FAMILY PROPERTY INSPECTION REPORT  
Federal Home Loan Mortgage Corp. 10/14/76

Property Address: 455 S. 11th St., St. Louis, Mo. 63104  
Borrower: MONTGOMERY, JIMMIE E.  
Address Checked: ☒

City: ST. LOUIS, MO. State: MO. Zip Code: 63104

Purchase Price: \$ 23,000.00  
Loan Amount: \$ 23,000.00 Interest Rate: 9.75% Term: 30 Yrs.

CONTRACT NUMBER 04-1-11542-2 APPRAISALS CONTROL DATE 11/27/76

Date	Land	Building	Appraised Value
10/14/76		Living Area Replacement Cost = \$ 18,000.00	\$ 23,000.00
		Other = \$ 5,000.00	

FIELD REPORT  
Loan to Value Ratio: (Lower of Purchase Price or Appraised Value) 95.51 %

Typical Property: \_\_\_\_\_ Age \_\_\_\_\_ Value \$ \_\_\_\_\_

Trend of Neighborhood: ☐ Improving ☒ Stable ☐ Static ☐ Declining

RATING

LOCATION	Poor	Fair	Avg.	Good	Excel.
Stability					
Protection from Ade. Inv.					
Attractiveness					
Community Facilities					

PROPERTY	Poor	Fair	Avg.	Good	Excel.
Condition-Exterior					
Condition-Interior					
Conformity to Neighborhood					
Appeal & Marketability					

Overall desirability for lending purposes: ☐ Excellent ☐ Good ☐ Average ☐ Fair ☐ Poor  
Loan Appraisal: ☐ Excessive ☐ Maximum ☐ Average ☐ Conservative  
Acceptance of security and loan recommended: ☐ Yes ☐ No (If no, explain)  
If Seller's Photographs are not descriptive take additional photographs.

Comments: Greenwood Court's  
converted apartments. Convenient to job & shop  
ping.

Inspected By: \_\_\_\_\_ Date: \_\_\_\_\_  
Reviewed By: \_\_\_\_\_ Date: \_\_\_\_\_

PHLMC 362 (9/75)

1476

FAMILY PROPERTY INSPECTION REPORT

Inspector's Initials *FC* *Set up* *Condy* *see* Corporation

Loan No. *100591-7* Contract No. *05-1-12167-B* Control Date *092179* Funding Date *101179*

Lender *COMMERCE UNION BANK* Borrower *MOIT, WILLIAM H.*

Property Address *595 HARDING ROAD, UNIT 155* Project *Royal Oak Condominium*

City *NASHVILLE* State *IN* Zip Code *37205*

Purchase Price \$ *48,200.00* Loan Amount \$ *46,450.00* Term *30.0* Yrs. LTV *94.78*

Appraised Value \$ *49,000.00* Land Value \$ *0.00* Date of Note *062279*

Improvements: No. Units *1* Gross Living Area *801.08* sq. ft. Room Count: Rms. *04* BR *01* Bath *1.0*

Instructions to Inspector: Inspect Comparable Sales: ☐ NO ☐ YES All \_\_\_\_\_ Comps. No. 1 \_\_\_\_\_ No. 2 \_\_\_\_\_ No. 3 \_\_\_\_\_

## FIELD REPORT

NOTE: FHLMC does not consider the racial composition of the neighborhood to be a relevant factor and it must not be considered in this report.

Dominant Nearby Land Use: ☒ Single Family ☐ 2-4 Family ☐ Other: \_\_\_\_\_

Describe those factors, favorable or unfavorable, affecting marketability (e.g. public parks, schools, noise, view, nearness to incompatible land use):

*Subject typical of other units in project. No deferred maintenance observed. Amenities and recreational facilities well maintained. Shards and common areas well kept. No adverse conditions observed that would affect marketability.*

PROPERTY ACCEPTABILITY	GOOD	AVG	FAIR	POOR
Site	<input checked="" type="checkbox"/>			
Topography/Drainage/Tree	<input checked="" type="checkbox"/>			
Access/Access/Condition	<input checked="" type="checkbox"/>			

PROPERTY ACCEPTABILITY	GOOD	AVG	FAIR	POOR
Exterior Condition	<input checked="" type="checkbox"/>			
Compatibility to Neighborhood	<input checked="" type="checkbox"/>			
Appeal & Marketability	<input checked="" type="checkbox"/>			

Comparable Sales Inspected: ☐ NONE ☒ ALL Comp. No. 1 \_\_\_\_\_ Comp. No. 2 \_\_\_\_\_ Comp. No. 3 \_\_\_\_\_

Appraised Value Appears ☐ Conservative ☒ Realistic ☐ Excessive

Describe any items rated fair or poor or others which affect marketability: \_\_\_\_\_

INSPECTOR: Attach a descriptive photograph of subject property and any additional photos if warranted.

Inspector's Signature *Ker Fe* Date *10/10/79*

FOR FHLMC USE ONLY

Does the Loan Security ☒ Yes ☐ No. If "No" explain: \_\_\_\_\_

Reviewer's Signature *Edith P. Shugart* Date *10/10/79*

MC 202 8/78

80-239 2350

1477

1-4 FAMILY PROPERTY INSPECTION REPORT



Underwriter's Initials FC

Loan No. 04-124127-6 Contract No. 04-1-12432 Control Date 072289 Funding Date 080789

Seller: FIRST FEDERAL S&L OF NASHVILLE Borrower: WILLIAM DAWSON PHILIP

Property Address: 4215 HARDING ROAD, UNIT 394 Project: Windsor Towers Condo

City NASHVILLE State TN Zip Code 37205

Purchase Price \$ 74,000.00 Loan Amount \$ 67,450.00 Term: 30 Yrs. LTV: 94.85

Appraised Value \$ 71,000.00 Land Value \$ 0.00 Date of Note 022789

Improvements: No. Units 1 Gross Living Area 80958 sq. ft. Room Count: Rms. 03 BR 01 Baths 1

Instructions to Inspector: Inspect Comparable Sales: ☐ NO ☐ YES All \_\_\_\_\_ Comps. No. 1 \_\_\_\_\_ No. 2 \_\_\_\_\_ No. 3 \_\_\_\_\_

FIELD REPORT

NOTE: FHLBC does not consider any of the factors mentioned in the neighborhood to be negative appraisal factors.

Dominant Nearby Land Use: ☒ Single Family ☐ 2-4 Family ☐ Other: 3% SE 46% hpts/condo 30% High Sch

Describe those factors, favorable or unfavorable, affecting marketability (e.g. public parks, schools, noise, view, nearby incompatible land use): appearing high rise condominiums, considered among the best in the area. Feels like a family reunion, conversation going on, attended a Sunday School, that enhances marketability. Only about 20 units in all of the area, out of 136 - 15% sold out.

SITE ACCEPTABILITY	GOOD	AVG	FAIR	POOR
Site	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Topography/Drainage/View	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Street Access/Condition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

PROPERTY ACCEPTABILITY	GOOD	AVG	FAIR	POOR
Exterior Condition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Compatibility to Neighborhood	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Aspect & Marketability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comparable Sales Inspected: ☐ NONE ☒ ALL Comp. No. 1 \_\_\_\_\_ Comp. No. 2 \_\_\_\_\_ Comp. No. 3 \_\_\_\_\_

Appraised Value Appears ☐ Conservative ☒ Realistic ☐ Excessive

Describe any items rated fair or poor or others which affect marketability: None

INSPECTOR: Attach a descriptive photograph of subject property and any additional photos if warranted.

Inspector's Signature Christina Baker Date 8-1-89

FOR FHLBC USE ONLY

Acceptable Loan Security ☐ Yes ☐ No. If "No" explain: \_\_\_\_\_

Inspector's Signature C. Baker Date 8-1-89

1478



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

November 14, 1980

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce, Consumer  
and Monetary Affairs  
Committee on Government Operations  
House of Representatives  
Washington, D.C. 20515

CONGRESSMAN BEN ROSENTHAL	
RECEIVED	
DATE	DOC #
NOV 18 1980	REC #
NAME	
COMMENT	
FILE CODE	

Dear Chairman Rosenthal:

Thank you for your letter of October 24, relating to certain issues associated with the conversion of multifamily rental properties to condominium or cooperative status.

I am enclosing, as requested, a copy of my recent letter to Chairmen Reuss and St Germain replying to their questions about the various actions that the Board plans to take in response to the provisions of Section 603 of the Housing and Community Development Act of 1980.

You suggest that the Board, in connection with its actions under Section 603 and in contemplation of your subcommittee's hearings on the subject, should undertake studies or analyses of several aspects of conversions; namely, speculative activity in condominium and cooperative units financed by member financial institutions, increased housing costs resulting from such conversions financed by member financial institutions, and inflationary impacts generally, resulting from increased housing costs.

Particularly since other federal agencies that supervise financial institutions have received similar suggestions, the matter has been referred to the Federal Financial Institutions Examination Council for interagency review. Once this review has been completed by the FFIEC and considered by the Board, I will notify you promptly of the Federal Reserve's decision.

Sincerely,

*Paul A. Volcker*

Enclosure

1479



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

PAUL A. VOLCKER  
CHAIRMAN

November 7, 1980

The Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Finance  
and Urban Affairs  
House of Representatives  
Washington, D. C. 20515

Dear Chairman Reuss:

Thank you for your October 15 letter which asks three questions regarding the Board's response to Section 603 of the Housing and Community Development Act of 1980. That section expresses the sense of Congress that lending by Federally insured lenders for conversions of rental housing to condominiums and cooperative housing should be discouraged in situations in which doing so will adversely affect the housing opportunities of low- and moderate-income, elderly, and handicapped tenants.

The Board fully understands the general concern Congress has expressed with the plight of individuals who find themselves displaced as a result of the conversion of rental housing, and have difficulty in relocating to equivalent or adequate quarters. We plan to inform each of the State member banks under our direct supervisory authority of this general expression of public policy as well as the sense of the relevant legislative history. We also will coordinate with other agencies through the Federal Examination Council to insure full and consistent coverage of Federally insured lenders.

The staffs of the Board and of the Federal Reserve Banks also participate in many meetings and seminars with community groups and others interested in local investment, and our participants in these sessions will specifically note the sense of Congress embodied in Section 603 in connection with these meetings. Our examiners also frequently contact civic, religious, and neighborhood organizations in seeking to ascertain the credit needs of the community in the course of the examination process. Our examiners will pass along this information to community groups in appropriate cases. In relevant instances, State member banks participating in bank financing of condominium conversions will be counseled with respect

to the expression of public policy contained in Section 603. Similarly, we plan to indicate the public policy considerations expressed by Congress in our contacts with groups in communities affected by conversions of this kind.

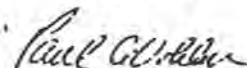
Your final question regards what action we intend to take to assure that Section 603 is in fact being implemented by State member banks. The sense of Congress set forth in Section 603 as an expression of public policy contains no mention of enforcement nor any specific delegation of enforcement authority. It is our understanding that the absence of enforcement provisions was a conscious decision by Congress that it did not intend that specific enforcement actions with the force of regulation or formal administrative procedures be undertaken. Indeed, as we understand the legislative history as reflected in the discussion on the House floor, the Congress did not contemplate compulsory enforcement and, in particular, did not intend that the Community Reinvestment Act should be a vehicle for assuring the implementation of Section 603.

I would also note that, while the general nature of the Congressional concern is evident, its relevance in particular instances will likely depend on very specific facts; e.g., the number of disadvantaged affected, the nature of procedures and other safeguards of their interests, and the like. It would be extremely difficult, even impossible, without much more precise guidance from Congress to draw up specific guidelines for judging what is acceptable and what is not in an area that importantly affects the rights of landlords and the rights of tenants.

We believe that the steps outlined above that the Board proposes to undertake are responsive to the legislative intent and to your concerns.

I trust you find this information useful. If you have any further questions, please contact me.

Sincerely,



Identical letter sent to Chairman St Germain.

ROBERT T. CANNON, JR., CLERK  
JULIUS G. FARRAR, JR., CLERK  
JAMES L. W. HARRIS, JR., CLERK  
JOHN HARRIS, JR., CLERK  
ELIZABETH L. LARSEN, CLERK

NINETY-SIXTH CONGRESS  
 Congress of the United States  
 House of Representatives  
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM 2-677  
 WASHINGTON, D.C. 20515

U.S. GOVERNMENT PRINTING OFFICE: 1979-0-250-100

August 21, 1980

Hon. Michael Pertschuk  
Chairman  
Federal Trade Commission  
Washington, D.C. 20580

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invaco, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

We are concerned generally with the nature and extent of possible violations of law or FTC regulations by condominium or coop converters. We are particularly interested in any complaints received or information developed by your staff dealing with the operations of American Invaco Corporation. This company is apparently noted for its "aggressive" sales techniques, and has been involved in several law suits alleging harassment, coercion and misleading and inadequate disclosure. See the attached article, "Aggressive Converter Assailed in Court Suits," Washington Star 4/11/80 which states that "complaints about the company's sales tactics...appear to follow a pattern of similar complaints lodged against the company in some of the 30 other cities where it has converted luxury buildings."

Moreover, the subcommittee has received complaints from tenants of the Promenade that Invaco has engaged in false and deceptive sales tactics by misleading prospective purchasers as to the actual costs of the cooperative units and by failing to adequately disclose information pertaining to portions of the buildings title to which is being retained by the developer.



1482

I am requesting that the Commission examine the practices surrounding the conversion of and sales of cooperative units in the Promenade. Also please supply the subcommittee with such background information and other data as you deem necessary to present a complete picture of the FTC's role in protecting the consumer in the case of condominium and coop conversions.

The subcommittee staff has already been in touch with FTC staff by telephone. I am interested in moving quite rapidly on this critical matter and would appreciate your immediate attention.

Sincerely,

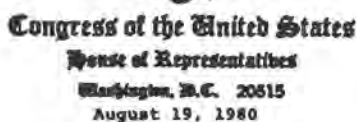
Benjamin S. Rosenthal  
Chairman

Enclosure

BSR:jbb

**MICHAEL D. BARNES**  
8TH DISTRICT, MARYLAND  
—  
COMMUNIST PARTY, U.S.A.  
1000 LANSING PLACE OFFICE BUILDING  
WASHINGTON, D.C. 20016  
CNE2 335-3461

INDEPENDENT NEWS'S SPECIAL  
 1954 GRADING APPOINTMENT  
 GRADING FLOOR  
 GRADING STATION, GRADING STATION 1954  
 (CIV) 1954-1954  
 SPECIAL FLOOR FOR THE  
 HEADING STATION  
 1954-1954  
 1954-1954



COMMITTEE ON FOREIGN AFFAIRS  
SUBCOMMITTEE  
EUROPE AND THE MIDDLE EAST  
INTERNATIONAL ECONOMIC  
RELATIONS

COMMITTEE ON THE JUDICIARY  
SUBCOMMITTEE  
IMMIGRATION, REFUGEES AND  
INTERNATIONAL LAW  
JUDICIAL, LEGAL AND  
GOVERNMENTAL RELATIONS

COMMITTEE ON THE DISTRICT  
OF COLUMBIA  
SUBCOMMITTEE  
JUDICIARY, LAW ENFORCEMENT

The Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

Recently it was announced that The Promenade, an apartment building at 5225 Pooks Mill Road in Bethesda, Maryland, would convert from its current status as rental apartments into a cooperative. The decision of the Promenade's owners to undertake the conversion has resulted in local litigation to try to stop it, and the case is presently in court. The Promenade is located in Montgomery County in the 8th congressional district of Maryland, which I represent.

I believe that the manner in which this conversion is being attempted raises serious questions of public interest which fall within the jurisdiction of the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, which you chair. There are concerns with respect to potential consumer fraud and false advertising and questions involving the financing of the proposed cooperative which fall within the purview of the subcommittee. In addition, there are broader questions with respect to how the practices involved in the Promenade conversion work elsewhere in the nation, and the effects they have on the pricing and availability of housing for millions of Americans.

I would therefore request that the Subcommittee on Commerce, Consumer and Monetary Affairs undertake an investigation of the Promenade conversion. My office is ready to give you any assistance which may be helpful to you in this matter.

I very much appreciate your consideration of this request.

Sincerely,

*Mike Barnes*  
Michael D. Barnes

MDB/nap

—B22, 1st County, 1st and 2nd Aves., 1st  
P. O. Box 30312  
Berkeley, Maryland 20014

SARAH SCHILLER  
205.

THE WASHINGTON STAR Friday, April 11, 1980

# 'Aggressive' Converter Assailed in Court Suits

By Jeff Gerth  
New York Times News Service

NEW YORK — American Invoco, the nation's largest condominium converter, has become ensnared in several lawsuits alleging harassment, coercion and misleading and inadequate disclosure under New York's conversion laws as a result of its attempts to convert two East Side luxury apartment buildings into cooperative and condominiums.

Complaints about the company's sales tactics and disclosure regarding the two buildings, 900 Park Ave. and 400 E. 56th St., appear to follow a pattern of similar complaints lodged against the company in some of the 20 other cities where it has converted luxury buildings.

American Invoco last year completed the conversion of the Grosvenor Apartments, a Bethesda complex consisting of two high-rise buildings and a number of townhouses.

The company, which takes its name from an amalgam of the words "investment company," has denied the allegations in court and in documents filed with the New York State attorney general, George J. Vavoulis, an assistant to Nicholas D. Gouletas, the founder and chairman of American Invoco, refused to discuss the charges but defended the company's sales practices.

"We're contributing to home ownership in America," Vavoulis, a former mayor of St. Paul, said. "Every condominium suit means one less tenant."

Vavoulis declined to disclose or produce specific financial information about the company, but said, "We're willing to carry out the philosophy of the American profit system."

## Anonymous Buyers

Many of the newly converted apartments have been sold to foreign entities, situated in offshore tax havens, and other anonymous purchasers, such as blind trusts, in a number of cash transactions.

Last year, according to estimates by real estate industry experts, the company grossed more than \$1 billion in revenues in real estate transactions in Atlanta, Nashville, Cleveland, San Francisco and elsewhere.

American Invoco, a private corporation started 10 years ago in Chicago by an encyclopedia salesman, usually acquires its properties with financing of 100 percent or more from banks and insurance companies. In some instances, major lenders have granted the company loans at 120 percent or more in interest rates 2 percentage points or more above the prime lending rate to cover the purchase and conversion of a building.

The company's hard-sell tactics have polarized tenants of the buildings it has taken over, turning some into successful real estate speculators and leaving others homeless and bitter. Real estate experts say

has defended what critics describe as his company's hard-sell tactics. Tenants who have lived in buildings purchased by American Invoco say renters are told that if they do not buy their apartments, they will be out in the street.

"They say we're aggressive," Gouletas told a reporter last year. "Well, I consider it a compliment. I consider it being alive and doing my job."

Gouletas started American Invoco in 1970 with his brother Victor and sister Evangeline. In 1972, after brokering real estate on the North Side of Chicago, they converted their first condominiums.

Since then, the company has been in the forefront of the condominium movement in Chicago. An American Invoco attorney, Wayne Harnish, was the chief architect of Chicago's condominium ordinance, passed in 1977.

The Real Estate Financing Bureau of the New York State attorney general's office currently is reviewing a proposed offering by American Invoco to convert 400 E. 56th St., called the Plaza 400, to cooperative ownership.

Tenants of the building are challenging the conversion attempt. They charge that American Invoco has withheld financial information required under the law "that would indicate the feasibility" of the profit in the conversion of their building.

## Prospectus Hit

Specifically, Eytel A. Brett, the attorney for the building's tenants association, said in a letter in February to state Attorney General Robert Abrams that American Invoco had deliberately failed to disclose the purchase price of the building and the projected profits, as required under New York's conversion statutes.

Brett, in his letter, also challenged the accuracy of the prospectus, saying it contained incorrect information, misinformation and inadequate disclosures about taxes, maintenance costs, mortgage indebtedness and the condition of the building.

American Invoco plans to convert Plaza 400 at a price of \$101.5 million. Documents on file at the Hall of Records show that the land beneath the building was purchased for \$8.3 million last summer and the lease on the building was purchased for an undisclosed amount. At the same time, the company refinanced the building's mortgage, which now total more than \$25 million.

One of the building's tenants, Sonya G. Jansoff, has filed a criminal harassment complaint against a representative of the American Invoco affiliate that manages the apartment building. Jansoff has contended that American Invoco is trying to evict her because she has complained about the condition of the building and is fighting attempts to convert the building.

Representing American Invoco in its conversion of Plaza 400 is the law firm of Phillips, Minter, Benjamin, Krim & Pullon David (Thomson, 97

1485

FEDERAL TRADE COMMISSION  
WASHINGTON, D. C. 20580

BUREAU OF  
CONSUMER PROTECTION

September 19, 1980

The Honorable Benjamin S. Rosenthal  
Chairman, Commerce, Consumer and  
Housing Affairs Subcommittee  
Committee on Government Operations  
B-377 Rayburn Building  
Washington, DC 20515

Dear Mr. Chairman:

Your letter of August 21, 1980, addressed to Chairman Pertschke, concerning your subcommittee's general inquiry into condominium and cooperative conversions and specifically the activities of American Invaco, has been referred to me for reply.

We at the Federal Trade Commission have investigated condominium projects in a limited number of situations. In the Century 21 case, Docket No. 9088, I shall look into the possible unfairness of the "99-year Recreation Lease." This matter was dismissed, in part, because the Florida legislature passed a law strictly limiting future use of recreation leases in condominium property sales. Thus, the public interest aspect of the case was greatly lessened. We enclose several documents from the Century 21 case for your information.

At present, the Bureau of Consumer Protection is investigating construction defects and deceptive sales practices in residential housing, particularly problems found in new housing construction. We have not included an inquiry into the area of older, converted residential structures, which appear to be involved in the Promenade Apartments situation discussed in your letter. However, if significant conversion problems violative of the statutes enforced by the Commission come to our attention, we will consider expanding our inquiry into those areas.

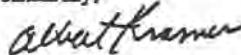
Responding to your specific inquiry about American Invaco and the Promenade Apartments, our search of FTC records discloses no complaints about the company. As Robert Barton, Deputy Assistant Director for the Division of Marketing Houses, told Ted Jacobs of your staff on August 28, 1980, the Commission at the present time does not have evidence of unfair or deceptive acts or practices, justifying action against American Invaco. If there are, in

1486

fact, actionable disputes between tenants of the Promenade Apartments (or other individuals) and American InvSCO, such disputes appear to be private contract matters. Accordingly, the parties may pursue any claims they may have in Maryland state courts.

Should your inquiry uncover additional information concerning possible violations of the FTC Act by American InvSCO, we would be pleased to look further into the matter. Please have your staff contact Robert Easton of this office at 523-3933 if we may be of further assistance.

Sincerely,



Albert H. Kramer  
Director

Enclosures

1487

JOHN S. ROSENTHAL, JR., CHAIRMAN  
JOHN F. D. HARTMAN, JR., VICE-CHAIRMAN  
JAMES H. HARRIS, JR., VICE-CHAIRMAN  
JOHN C. HARRIS, JR., VICE-CHAIRMAN  
DAVID S. HARRIS, JR., VICE-CHAIRMAN

JOHN S. ROSENTHAL, JR., CHAIRMAN  
JOHN F. D. HARTMAN, JR., VICE-CHAIRMAN  
JAMES H. HARRIS, JR., VICE-CHAIRMAN  
JOHN C. HARRIS, JR., VICE-CHAIRMAN  
DAVID S. HARRIS, JR., VICE-CHAIRMAN

SEVENTY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 2-207  
WASHINGTON, D.C. 20515

October 7, 1980

FEDERAL TRADE COMMISSION  
DIVISION OF  
MARKETING ABUSES

OCT 15 1980

RECEIVED

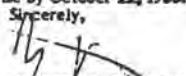
Mr. Robert Easton  
Deputy Assistant Director  
Division of Marketing Abuses  
Federal Trade Commission  
Washington, D. C. 20580

Dear Mr. Easton:

This is in further reference to this subcommittee's investigation into condominium and cooperative conversions.

I enclose a copy of a letter contained in Senate hearings, from then Undersecretary of HUD, Jay Janis, to Senator Garn dated July 13, 1979, in which he states, in reference to condo conversions, that: "Both HUD and the FTC continue to receive complaints from purchasers from all parts of the country." He then describes the nature of some of the complaints. I would appreciate it if you would make available to the subcommittee the complaints to which Mr. Janis refers, and similar complaints dealing with condo and coop conversions received subsequently. If you will call Mr. Jacobs of the subcommittee staff when they are available, he will arrange to review them. We hope to hold hearings when Congress meets after the election and so would appreciate a response by October 22, 1980.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:jv \*

Enclosure

1488

585

Now, with regard to the 203(n) handbook, we will get those out just as soon as we can. I don't think it will be a matter of weeks; I think it will be more a matter of a few months. But I promise you we will work on it as fast as we can.

Senator WILLIAMS. This has been very, very productive and helpful. Thank you.

Mr. JANIS. Thank you, Mr. Chairman.

[The following letter was received for the record:]



THE UNDER SECRETARY OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410

July 13, 1979

Honorable Jake Garn  
United States Senate  
Committee on Banking, Housing,  
and Urban Affairs  
Washington, D.C. 20510

Dear Senator Garn:

Thank you for your letter of July 6 inviting me to respond to some further questions for the record on Senate Bill 612, the proposed Condominium Act of 1979.

According to the Annual Housing Survey, as of October 1977, condominiums accounted for 1.4 percent of the owner-occupied housing stock....roughly 723,000 units. This was a 15 percent increase over 1975. More dramatically, the census figures show that privately-owned housing starts intended for use as condominiums increased from 65,000 units in 1975 to 136,000 in 1978 .... a 140 percent increase. Regional government agencies, national media and industry experts now report a considerable rise in the number of new units and conversions coming into the market this year and they predict a sharp rise for the future. My own view of the situation is that the increase in new condominium construction will be unprecedented in the decade of the 1980s.

The 1975 HUD study is the most recent analysis of problems in condominiums throughout the country. However, we have no evidence that the situation has changed since the study was completed or that these major problems do not still exist. Both HUD and the FTC continue to receive complaints from purchasers from all parts of the country.

For example, certain developers are not turning over books and records to the owners associations in Illinois. Purchasers in many states receive no warranty on the common elements. Purchasers in conversions often don't get adequate information on the condition of the building. In North Dakota and other states developers have not been paying dues on unsold units. Long-term management contracts bind owners in states with first

-3-

generation laws. Condominium converters who deliberately do not want to sell units to present tenants are offering the units to them at exorbitant prices which are then reduced for other prospective buyers. //

Recreation leases exist in a number of States. While recreation leases with escalator clauses are largely confined to Florida, we cannot confidently predict that these abuses will not occur elsewhere in the future. In the meantime, the hundreds of thousands of people affected by these onerous recreational leases are often the elderly from other parts of the country like Michigan, Illinois and New Jersey, that have retired to Florida on fixed incomes and whose children may have to help make the payments on the leases which are continuing to escalate along with prices.

While the majority of development is still taking place in the South and West as reported in the 1975 study, there have been very few changes in State law since that time. Many of these States still have minimal requirements and little consumer protection. For example, Colorado which was in the top ten states with condominium activity in 1975 and which continues to have a fast growing condominium market still has not enacted a second-generation statute. Other states such as Illinois, Texas and Ohio have very weak laws and significant condominium activity.

These difficulties and abuses confronted by condominium owners have not been addressed in any meaningful way in many states. Also, since much of the new construction has been taking place in areas which had little activity in the early 1970's, similar problems might be just surfacing in these locations.

I appreciate this opportunity to address your concerns.

Sincerely,

  
Jay Janis



1490

FEDERAL TRADE COMMISSION  
WASHINGTON, D. C. 20580

BUREAU OF  
CONSUMER PROTECTION

27 OCT 1980

Mr. Ted Jacobs  
Commerce, Consumer, and Monetary  
Affairs Subcommittee of the  
Committee on Government Operations  
Rayburn House Office Building, Room B-377  
Washington, DC 20515

Dear Mr. Jacobs:

This letter is written in response to Congressman Rosenthal's October 7th letter asking for copies of complaints we received about condo and co-op conversions. As I mentioned by phone on October 22, we do not have many complaints about condo or co-op conversions. In fact, we only found one in our files.

I caused a search to be made of the FTC central complaint files and the new Housing Defect Program files for all complaints relating to condominiums and cooperatives, both new and conversion. The total number of complaints was not great. There was only one that related to conversions. I offered to make all of the complaints available for your review but you requested that I only send you copies of the one relating to conversions. I enclose the copy with my letter.

Please let me know if I can be of further assistance to you or Congressman Rosenthal.

Sincerely,



Robert E. Easton  
Deputy Assistant Director  
Division of Marketing Abuses

Enclosure

1491



13813

2401 Penna. Ave.,  
Apt. 99B25,  
Phila., Pa.  
February 10, 1930



Dear Mr. Fatchuk:

My husband and I live in a large, high-rise apartment building in center city Philadelphia. In the past several buildings like ours have been converted to condominium buildings and, at present, our building is under negotiation. Judging from the experience my parents have had in the buildings in which they live, tenants usually have to pay from \$50 to \$80 per square foot for apartments, take a high-interest mortgage, and double their monthly rental for maintenance and expenses each month.

For people in middle-income brackets and older people this is a catastrophe. Lifelong planning that assured a respectable, dignified older age becomes instead a panicky, insecure, day-to-day existence.

It seems to me that renters are prey to the get-rich-quick condo converters. Why is there a severe shortage of rental housing?

The FTC has protected us from unfair practices by other profit-making groups. Can and will your agency propose regulations that will avoid this dreadful, unsettling, unfair upheaval that is eroding our survival support system?

Many thanks and best of luck to you,

*David Specter*

JOHN A. FORD, JR., CLERK  
 301 - LAYTON, Bldg.  
 1st - 2nd Floor  
 1000 A, 1000 B, 1000 C, 1000 D, 1000 E, 1000 F, 1000 G, 1000 H, 1000 I, 1000 J, 1000 K, 1000 L, 1000 M, 1000 N, 1000 O, 1000 P, 1000 Q, 1000 R, 1000 S, 1000 T, 1000 U, 1000 V, 1000 W, 1000 X, 1000 Y, 1000 Z, 1000 AA, 1000 AB, 1000 AC, 1000 AD, 1000 AE, 1000 AF, 1000 AG, 1000 AH, 1000 AI, 1000 AJ, 1000 AK, 1000 AL, 1000 AM, 1000 AN, 1000 AO, 1000 AP, 1000 AQ, 1000 AR, 1000 AS, 1000 AT, 1000 AU, 1000 AV, 1000 AW, 1000 AX, 1000 AY, 1000 AZ, 1000 BA, 1000 BB, 1000 BC, 1000 BD, 1000 BE, 1000 BF, 1000 BG, 1000 BH, 1000 BI, 1000 BJ, 1000 BK, 1000 BL, 1000 BM, 1000 BN, 1000 BO, 1000 BP, 1000 BQ, 1000 BR, 1000 BS, 1000 BT, 1000 BU, 1000 BV, 1000 BW, 1000 BX, 1000 BY, 1000 BZ, 1000 CA, 1000 CB, 1000 CC, 1000 CD, 1000 CE, 1000 CF, 1000 CG, 1000 CH, 1000 CI, 1000 CJ, 1000 CK, 1000 CL, 1000 CM, 1000 CN, 1000 CO, 1000 CP, 1000 CQ, 1000 CR, 1000 CS, 1000 CT, 1000 CU, 1000 CV, 1000 CW, 1000 CX, 1000 CY, 1000 CZ, 1000 DA, 1000 DB, 1000 DC, 1000 DD, 1000 DE, 1000 DF, 1000 DG, 1000 DH, 1000 DI, 1000 DJ, 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NINETY-SIXTH CONGRESS  
 Congress of the United States  
 House of Representatives  
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM 5-07  
 WASHINGTON, D.C. 20515

September 15, 1980

Hon. Lawrence B. Simons  
 Assistant Secretary for Housing  
 Federal Housing Commissioner  
 Federal Housing Authority - Room 9100  
 Department of Housing and Urban Development  
 Washington, D. C. 20410

Dear Mr. Assistant Secretary:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownerships and how governmental programs and activities impact this conversion trend.

Since FHA loans are available to prospective condominium or cooperative purchasers only in developments approved by your agency, the standards set by FHA directly affect the quality of conversion projects.

In order to pursue our inquiry, please supply the subcommittee with a complete copy of FHA standards relating to conversions of rental properties to condominium or cooperative ownership dealing with the following:

- a. Legal requirements - What kind of review do you undertake of the legal documents required for a project? Do you review state or local agency actions or pending or proposed litigation?
- b. Project conditions - How do you require that the architects or engineers report on the condition of structural and major mechanical systems be based on thorough analysis and be conducted by independent entities?
- c. Warranties - What kinds of warranties do you require against latent defects in the project?
- d. Management - What standards do you have on management arrangements involving the developers or organizations associated with them?

1498

- e. Budget - How do you review the proposed budget of a proposed condo or coop for accuracy and completeness? How do you determine whether an adequate reserve fund for maintenance, repairs, and replacement of common elements is present?
- f. Owner-occupant and investor purchase rules - What are your rules to insure that units will be occupied as primary residences by owner-occupants? How are these rules enforced?

We anticipate that our inquiry will culminate in hearings and in such other action as the subcommittee may direct. In order to prepare these hearings, we request that you make the information requested herein, and such other information as our staff may request, available as soon as possible.

If your staff has any questions, they may contact the subcommittee at 225-4407.

Sincerely,

Benjamin S. Rosenthal  
Chairman

BSR:jb

1494

Congress of the United States  
House of Representatives  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 6-27  
WASHINGTON, D.C. 20515

October 7, 1980

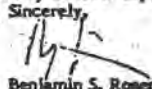
Hon. Victor Marrero  
Under Secretary  
Department of Housing & Urban Development  
Washington, D. C. 20410

Dear Mr. Marrero:

This is in further reference to this subcommittee's investigation into condominium and cooperative conversions.

I enclose a copy of a letter contained in Senate hearings, from then Undersecretary of HUD, Jay Janis, to Senator Garn dated July 13, 1979, in which he states, in reference to condo conversions, that: "Both HUD and the FTC continue to receive complaints from purchasers from all parts of the country." He then describes the nature of some of the complaints. I would appreciate it if you would make available to the subcommittee the complaints to which Mr. Janis refers, and similar complaints dealing with condo and coop conversions received subsequently. If you will call Mr. Jacobs of the subcommittee staff when they are available, he will arrange to review them. We hope to hold hearings when Congress meets after the election and we would appreciate a response by October 22, 1980.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:iv

Enclosure

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OCT 9 1980

Honorable Benjamin S. Rosenthal  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

I am responding to your letter of September 3, 1980 to Secretary Landrum requesting answers to a series of questions regarding the conversion of rental units to condominium and cooperative status.

I will respond in the order the questions are presented in the letter:

1. Describe each HUD loan, guarantee or insurance program utilized for the financing of the construction of rental property and state under what circumstances such property may be converted into condominium or cooperative ownership. State the extent to which such programs have been used and the Department's estimate of future use.
2. Describe each HUD subsidy program utilized for the construction of rental properties and state under what circumstances such subsidized property may be converted into condominium or cooperative ownership. State the extent to which such properties have been subjected to conversion and the Department's estimate of future use.
3. Describe each HUD loan, insurance or guarantee program which can be utilized for the purchase of units in properties converted from rental to condominium or cooperative ownership. State the extent to which such programs have been used and the Department's estimate of future use.

Part II of Appendix I of the report, The Conversion of Rental Housing to Condominiums and Cooperatives prepared by HUD in accordance with the provision of Section 109(b) of the "Housing and Community Development Amendments of 1979" contains description of the programs as well as statistical data. The volume containing the information is enclosed.

4. Describe how Community Development Block Grants can be used to encourage local communities to adequately address conversion and displacement problems. For example, has HUD considered adequate local programs for aiding the displaced, such as relocation assistance and alternative housing, in determining allocation formulas?

Community Development Block Grants can be used to help solve problems caused by condominium conversion, especially in communities which have low vacancy rates in rental housing. By channeling funds through neighborhood based non-profit organizations, Block Grants can be used to provide seed money and legal fees to turn prospective condominiums into low income co-ops, for write-downs on units, for development assistance, and in other ways.

Every applicant must have a Housing Strategy which takes into account public and private displacement. In addition, the Area Offices are instructed to require a displacement strategy of Block Grant recipients when the community development program will result in direct and indirect displacement of low and moderate income persons. Use of CDBG funds to support citywide planning to prevent or mitigate the adverse effects of revitalization is permitted by localities. HUD is providing technical assistance to four cities to demonstrate the applicability of displacement strategies.

In addition, Innovative Grants from the Secretary's Discretionary Fund have been used in several instances to avoid displacement of low income persons from condominiums. As an example of this, in Brooklyn, Massachusetts, an Innovative Grant has been made to give equity assistance secured by a lien on the unit, to low and moderate income families facing displacement from apartment buildings turning condominiums.

HUD's allocation formula under the block grant is determined by statute. Displacement is not one of the criteria used to measure need. HUD has no discretionary authority to determine the allocation to localities.

5. As you know, the Housing and Community Development Reauthorization of 1979 requires communities receiving CDBG to assess the impact of condominium and cooperative conversions on the housing needs of lower income households and to include this assessment in the Housing Assistance Plan submitted with their CDBG application. Please supply copies of all such assessments received to date.

HUD has required cities to assess the impact of condominiums as part of measuring any "special housing condition in the community." Such a summary shall include...the impact of conversion of rental housing to condominium or cooperative ownership." (See page 59308, Federal Register, Vol 45, No. 176, September 9, 1980.) The new language emphasizes an existing requirement that both public and private displacement be considered by applicants in preparing their Housing Strategies and Housing Assistance Plans.

1497

We do not keep records in the central office of Housing Assistance Plans for the more than 600 entitlement communities in the central office. Each area office keeps the applications for the cities under their jurisdiction in their files. If you would like, we can request the area offices to send copies of the Housing Plans for selected localities.

If we may be of further assistance, please contact us.

Sincerely,

Lawrence B. Simons  
Assistant Secretary

Enclosure



1498

October 14, 1980

Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on  
Commerce, Consumer, and Monetary Affairs  
Committee on Government Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Rosenthal:

Thank you for your letter of October 7, 1980. My staff is looking into the matter and we will provide you a full response as soon as possible.

Sincerely,

/s/ Victor Marrero

Victor Marrero

1499

OCT 17 1980

Honorable Benjamin S. Rosenthal  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

I am responding to your September 15, 1980 letter requesting information on the FHA standards involved in the conversion of rental units to condominium and cooperative ownership. You asked for a complete copy of FHA standards.

I am enclosing the following documents:

HUD 4350.1 Insured Project Servicing Handbook  
HUD 4550.1 Basic Cooperative Housing Insurance Handbook  
HUD 4550.2 Pre-Sale Management Type Cooperatives  
HUD 4550.3 Existing Construction Cooperative Housing  
HUD 4550.4 Supplementary Loan Cooperative Housing  
HUD 4550.5 Investor - Sponsor and Non-Profit Sponsorship for Housing Cooperatives  
HUD 4550.6 Sales Type Cooperative Handbook  
HUD 4550.1 Mortgage Insurance for Condominium Housing Insured Under Section 234(d) of the National Housing Act  
HUD 4255.1 Home Mortgage Insurance - Condominium Units Section 234(c)  
FHA Form 3225 Regulatory Agreement (For use by Cooperatives in Section 213 and 221)  
FHA Form 3254-B Regulatory Agreement for the Owner, Section 234(d)  
FHA Form 3272 Regulatory Agreement for the Condominium Association, Section 221(i), 234, and 235.

Under separate cover, I am sending answers to your specific questions on legal requirements, project conditions, warranties, management, budget, and owner occupancy rules.

Sincerely,

Lawrence E. Simons  
Assistant Secretary

1500

OCT 27 1980

Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer, and Monetary Affairs  
Committee on Government Operations  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

This is in further response to your letter requesting that complaints received by the Department on condominium and cooperative conversions be made available to the Subcommittee on Commerce, Consumer, and Monetary Affairs.

Your correspondence refers to a quote in a letter sent by former Under Secretary Jay Janis to Senator Jake Garn on July 13, 1979, on the subject of condominium complaints generally. The Janis letter does not, however, address the issue of consumer complaints with regard to conversions.

The Department does receive condominium and cooperative "housing" complaints both in Headquarters and field offices. However, condominium or cooperative "conversion" complaints are not recorded as a distinct category. Nonetheless, upon checking with our Headquarters program offices and with some of our field offices where conversion complaints could be expected, I have learned that only a few letters on a very scattered basis have been received. For instance, our Florida offices report that at the most, less than 1 percent of complaints received relate to conversions and thus are not recognized as a major problem. In addition, as of the end of August, out of approximately 17,500 housing complaints received since the beginning of the year, only 30 were related to condominium or cooperative housing generally. Should you wish, however, I could have our offices manually review these complaints in order to pull the very few pieces of correspondence received regarding condominium or cooperative conversions.

As you may know, Section 821 of the Housing and Community Development Act of 1974 directed HUD to conduct a thorough study of condominiums and cooperatives and to examine the problems, difficulties, and potential abuses associated with them. Our report was submitted to Congress on August 21, 1975.

1501

HUD held public hearings on condominiums and cooperatives as part of this broad study. The hearings were held in Washington, D.C. (February 10-12, 1975) and in Fort Lauderdale, Florida (March 24, 1975). Over 40 persons testified, and many of them addressed the issue of condominium and cooperative conversions.

I have enclosed copies of the transcript of the Washington hearings and Volume III of the 1975 Report to Congress which contains a summary of those hearings. Although the testimony in the Florida hearings primarily addresses problems such as recreation leases that were not prevalent in other states, we will be happy to make a copy of a transcript of those hearings available if you wish to review it.

In addition, this past June, we submitted to Congress a study on the Conversion of Rental Housing to Condominium and Cooperatives pursuant to Section 109(b) of the Housing and Community Development Amendments of 1979. A copy of this study is also enclosed for your review.

I hope this information is helpful to you. If I can be of any further assistance, please let me know.

Sincerely,

/s/ Victor Marrero

Victor Marrero

1502

NOV 7 - 1980

Honorable Benjamin S. Rosenthal  
Chairman, Commerce, Consumer, and  
Monetary Affairs Subcommittee  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Rosenthal:

I am responding to your letter of September 15, 1980 requesting information on the FHA standards involved in conversion of rental units to condominium and cooperative ownership. The complete copy of the FHA standards has been sent under separate cover.

I will respond in the order the questions are presented in the September 15, 1980 letter:

A. Legal Review

HUD's condominium and cooperative mortgage insurance programs require the use of HUD's model forms of legal and organizational documents which are designed primarily to protect the consumer. The Department must approve the cooperative or condominium organizational documents, including the Enabling Declaration, By-laws, Regulatory Agreement and Subscription and Purchase Agreements, plus required exhibits. Substantive changes in these forms must be approved by the Multifamily Mortgage Insurance Branch of the Office of General Counsel.

The Department's model forms are largely self-explanatory. However, it is not possible to prepare these documents in precise form for use in every jurisdiction. Under the National Housing Act and regulations, the Department does not determine that the Enabling Declaration and exhibits are legally acceptable and binding in the jurisdiction where the project is located. As to this matter reliance is placed upon the local counsel of the developer. The Department's model forms must be followed with only such changes as may be required to conform to the facts pertaining to individual projects or to the requirements of local law.

The Department is currently preparing to discontinue use of the model Master Deed and By-Laws for a condominium and the Regulatory Agreement between HUD and the Condominium Association. These will be replaced by a set of legal policies which have been agreed to by FNMA, FHLMC, VA, and HUD. All four organizations will now have the same policies. This is the product of a four year effort.

The specific list of the present legal requirements involved are set forth in the HUD Handbook, Mortgage Insurance For Condominium Housing Insured Under Section 234(d) of the National Housing Act (4580.1), Appendix 12.

#### B. Project Conditions

The Department's architectural and engineering requirements are contained in Handbook 4265.1, pages 9-1 and 9-2, paragraph 9-2 and 9-3. On an existing property that is to be converted to a condominium, HUD recommends that the sponsor retain a licensed mechanical engineer. An architectural examination of the facility is also required to determine the condition of the property and to identify any required repairs. Such architectural examinations and related reports are completed and prepared by the HUD Staff assigned to the Architectural and Engineering Branch.

Existing requirements pertaining to condominiums do not specifically address the issue of the engineer's relationship with the owner/sponsor of the property. However, the requirements specifically state: "This engineer must be acceptable to the Field Office." Accordingly, such requirement would function to permit the exclusion of any engineer that had an identity of interest with the owner, sponsor or the property.

The outstanding instructions pertaining to cooperatives are very specific with respect to the relationship of an engineer to the sponsor. Such requirements state, under the subject of Consumer Safeguards, "As further protection, the report of an independent licensed mechanical engineer covering the condition of the premises is required and the cooperative must be represented by an independent attorney." (See Handbook 4550.3, pages 1-4 and 1-5, paragraph 1-8.) The engineer is precluded from having an identity of interest with the current owner/sponsor. With respect to a cooperative, the inspections required to determine the physical condition of the property are performed by members of the HUD Field Office staff. Such inspections are typically made by members of the Field Office Architectural and Engineering Branch.

#### C. Warranties

Warranties for both condominium and cooperative are required only where a project has been recently constructed or was substantially rehabilitated.

A warranty against latent defects is required for a period of one year following substantial completion of the construction or rehabilitation. The warranty must be secured by a bond or a cash escrow.

#### D. Management

The requirements for management are set forth in the Federal Regulations, Regulatory Agreements, and handbooks which apply to the section of the National Housing Act under which cooperative and condominiums are insured.

. When a cooperative is approved by the Department, the sponsor is responsible for the management of the cooperative until the HUD unit presale requirement is met and the project is completed. At that time, the cooperative members elect a Board of Directors. The Directors contract with professional management to manage the cooperative. This management must be acceptable to HUD and the agreement must be on a form prescribed by HUD.

When a condominium project is approved by the Department, the developer is responsible for the management until 80 percent of the units are sold and the project is completed. At that time the Condominium Association will elect a Board of Directors. The Directors may contract with professional management. While there is no absolute requirement that a condominium association be managed by a professional management firm, there is a requirement that any substitute plan be approved by HUD-FHA. If professional management is used, the management agreement must conform to the HUD Model Agreement.

The mortgagor is ultimately responsible for maintaining the project's ground and buildings in good repair. Remodeling and reconstruction must conform to the requirements of the mortgage. The mortgagor must establish and maintain a Fund for Replacements and general operating reserve. The books and accounts of the mortgagor must be kept in accordance with accounts established by HUD, and financial reports must be submitted. The mortgagor, property, books, contracts, records and documents are subject to inspection by HUD at all reasonable times.

## E. Budgets

The developer submits an initial budget on a form prescribed by HUD. The budget is reviewed by the field office for technical sufficiency and reasonableness. Each line item on the budget must conform with HUD's system of accounts, and the expenses must be comparable to expenses of comparable projects. The comparability test is performed by using a computer data base system which contains the expenses of other cooperatives and condominiums. After the initial budget is approved, future budgets are required on an annual basis and are subject to the same type of review. The process is the same for both cooperatives and condominiums.

For each cooperative or condominium the developer makes an initial deposit to the reserve for replacement fund. After the fund is established, the same amount is paid into the fund each year by the cooperative or condominium members. We are in the process of changing the handbook requirements for reserve for replacements. In this change, the reserve fund will be periodically reviewed to ensure that adequate amounts are being set aside for maintenance, repairs, and replacement of common elements. This process is the same for both cooperatives and condominiums.

In addition, both the Cooperative and Condominium Associations have to maintain a general operating reserve (in accordance with the regulatory agreement) in an amount equal to 25 percent of the current annual amount of assessment chargeable to the condominium and cooperative unit owners. This operating reserve is intended to cover financial contingencies including deficiencies resulting from the delinquent payment of assessments or carrying charges by owners and unanticipated maintenance expense. The developer's contribution to the operating reserve fund is based upon 25 percent of the annual amount of assessments attributable to the units remaining unsold and owned by the developer.

## F. Owner-Occupant and Investor Owner Rules

The cooperative programs limit permanent occupancy to members of the cooperative. Section 213(a)(1) of the National Housing Act authorizes the Secretary to insure a mortgage covering property held by - "a nonprofit cooperative ownership housing corporation or nonprofit cooperative ownership housing trust, the permanent occupancy of the dwellings of which is restricted to members of such corporation or to beneficiaries of such trust." This statutory definition has been carried over in similar language to Sections 213.1(f) and 221.510(d)(1) of the regulations.



The various legal documents, such as, the Regulatory Agreement, Occupancy Agreement, Information Bulletin and By-Laws, connected with a cooperative indicate that a purchaser must become a member of the cooperative, that he can only own a share for one unit and that the unit must be for his own use or that of his immediate family. For example, Article 5 of the Occupancy Agreement provides in part, "The Member shall occupy the dwelling unit covered by this agreement as a private dwelling unit for himself and/or his immediate family and for no other purpose..." This rule can be enforced by the cooperative or the Department if the cooperator defaults or does not adhere to the rule. Article 13 of the Agreement states that one of the events that can cause a default is if "the member shall default in the performance of any of his obligations under this agreement." If the corporation determines that a default has occurred, it can, by following appropriate proceedings, terminate the agreement, remove all possessions from the unit and repossess the dwelling unit. The Department, in turn, controls the cooperative mortgagor corporation through a Regulatory Agreement. Upon a default in any of the terms of the Regulatory Agreement, the Secretary may request the mortgagee to accelerate the mortgage debt, operate the project on behalf of the mortgagor, operate the project until the mortgagor can operate the project itself again or take any appropriate legal action that the Secretary deems necessary. It should also be noted that the cooperative must be a non-profit. If less than 80 percent of the residents are owners, it loses its non-profit status and may not pass through interest and taxes to the individual cooperators.

The condominium program restricts ownership of units to no more than four units covered by insured mortgages. One of the units must be owner-occupied. Section 234(c) of the National Housing Act states in part that a mortgagor "will not own more than four one-family units covered by mortgages insured under this subsection." Section 234.59 of the regulations implements this statutory requirement and provides in part that a "mortgagor may not own more than four family units covered by insured mortgages, one of which shall be for his/her own use and occupancy." Section 234.27 of the regulations also makes a distinction between occupancy and nonoccupant mortgagors in arriving at a maximum mortgage amount for a unit. An occupant mortgagor receives more favorable treatment in that he is eligible for a larger mortgage than a nonoccupant mortgagor.

—If I may be of further assistance, please let me know.

Sincerely,

/s/ Lawrence B. Simons  
Lawrence B. Simons  
Assistant Secretary

1507



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR  
HOUSING - FEDERAL HOUSING COMMISSIONER

14

Honorable Benjamin S. Rosenthal  
Chairman, Commerce, Consumer and  
Monetary Affairs Subcommittee  
Committee on Government Operations  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Rosenthal:

Thank you for your letter of October 15 following up  
your letter of September 15 regarding co-op and condominium  
conversions. The following information is provided concerning  
"non-occupant mortgagors" in the order the questions are  
presented in the October 15 letter:

- (1) HUD provides mortgage insurance to foster investment in housing. The specific purpose of extending non-occupant insurance under the mutual mortgage insurance program is to support the most important segment of the rental sector. According to the 1977 Annual Housing Survey, 15.568 million rental housing units (59 percent of the total) are in buildings of less than four units. The specific statutory authority is to be found in Section 203(b)(2) of the National Housing Act. It should be noted that Section 203(b)(8) provides for a lower loan to value ratio in the case of investors.
- (2) a) As I indicated in response to your September 15 letter, the condominium program restricts ownership to a maximum of four units covered by insured mortgages--one of which must be owner occupied. As of June 1980, 34,179 units were insured under Section 234. The total amount of insurance was \$759,131,170. Thirty six units were initially non-owner occupied--0.11 percent (approximately \$800,000.) No doubt over time a higher percentage of units become non-owner occupied (due to the mobility of the population.) However, no statistics are available as to the present number of non-owner occupied units.

PLEASE REFER TO:	
CONGRESSMAN BEN ROSENTHAL	
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b) For Fiscal Year 1980, 3 percent of the insurance written in the Mutual Mortgage Insurance Program were for non-owner occupied units. This represents approximately 13,000 units and insurance in the amount of \$523 million.

- (3) HUD requires a certification by the mortgagor that he or she occupies the property (when required by the commitment) and by the mortgagee that to the best of its knowledge the statement of the mortgagor is true.
- (4) I have contacted the Office of General Counsel and they know of no case involving a false certification in the case of a condominium (inquiries to your staff indicate that is the focus of this question.)

If I may be of further assistance, please let me know.

Sincerely,

  
Frederick B. Simon  
Assistant Secretary

ROBERT T. MONTAGNA, JR., DIRECTOR  
JAMES T. MONTAGNA, JR., CHIEF OF BUREAU  
JAMES T. MONTAGNA, JR., CHIEF OF BUREAU  
JAMES T. MONTAGNA, JR., CHIEF OF BUREAU

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 5-271  
WASHINGTON, D.C. 20515

LESLIE WILKINS, JR., DIRECTOR  
JAMES T. MONTAGNA, JR., CHIEF OF BUREAU  
JAMES T. MONTAGNA, JR., CHIEF OF BUREAU  
JAMES T. MONTAGNA, JR., CHIEF OF BUREAU

August 21, 1980

Hon. Jerome Kurtz  
Commissioner  
Internal Revenue Service  
Washington, D.C. 20224

Dear Mr. Commissioner:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invsco, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

As you know, the provisions of the Internal Revenue Code, particularly Section 216, make it possible for tenant-stockholders of certain cooperative housing corporations to deduct proportionate shares of real estate taxes and interest payments made by the corporation. Among other requirements, the deduction is allowed only if 80 percent or more of a coop's gross income for the taxable year is derived from its tenant-stockholders by virtue of their payment as occupants of the apartment building.

As you undoubtedly know, there has been substantial speculation in converted condominium and coop apartments and many such units purchased for investment are not owner-occupied. If a sufficient number of units are sold to speculators who do not reside in the building, it is clear that the 80 percent test required by Section 216 for deductibility may not be met.


I am writing to inquire about IRS experience with corporations falling below the 80 percent requirement. Without identifying specific taxpayers, please supply the subcommittee with a list of coops which have been found to have fallen below the requirement of Section 216(b)(1)(D) in the past ten years. Also please inform the subcommittee of what steps are taken by IRS to insure compliance with that provision. State in detail the audit procedures undertaken, the method of identifying possible violations and the steps taken to disallow individual deductions when a coop falls below the requirement of this section.

1510

We anticipate that our inquiry will culminate in hearings and in such other action as the subcommittee may direct. In order to prepare these hearings, we request that you make the information requested herein, and such other information as our staff may request, available as soon as possible.

If your staff has any questions, they may contact the subcommittee at 225-4407.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman


Enclosure

BSR:jb

1511

MICHAEL D. BARNES  
8TH DISTRICT, MARYLAND  
—  
WASHINGTON FIELD OFFICE  
4001 LAMONTAGUE PARKWAY OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-6341

INTERNATIONAL COUNTY OFFICE  
6124 BROADWAY AVENUE  
BETHESDA, MARYLAND 20814  
(301) 588-0893  
SPECIAL PHONE FOR THE  
HEARING (CAPTIONED)  
TTY-225-6768  
TTY-225-6887

  
Congress of the United States  
House of Representatives  
Washington, D.C. 20515  
August 19, 1980

COMMITTEE ON FOREIGN AFFAIRS  
—  
SUBCOMMITTEE  
EUROPE AND THE MIDDLE EAST  
INTERNATIONAL ECONOMIC  
POLICY AND TRADE  
—  
COMMITTEE ON THE JUDICIARY  
—  
SUBCOMMITTEE  
IMMIGRATION, REFUGEES AND  
INTERNATIONAL LAW  
ADMINISTRATIVE LAW AND  
GOVERNMENTAL RELATIONS  
—  
COMMITTEE ON THE DISTRICT  
OF COLUMBIA  
—  
SUBCOMMITTEE  
JUDICIARY, MANAGEMENT  
AND EDUCATION

The Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

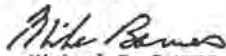
Recently it was announced that The Promenade, an apartment building at 5225 Pooks Hill Road in Bethesda, Maryland, would convert from its current status as rental apartments into a cooperative. The decision of the Promenade's owners to undertake the conversion has resulted in local litigation to try to stop it, and the case is presently in court. The Promenade is located in Montgomery County in the 8th congressional district of Maryland, which I represent.

I believe that the manner in which this conversion is being attempted raises serious questions of public interest which fall within the jurisdiction of the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, which you chair. There are concerns with respect to potential consumer fraud and false advertising and questions involving the financing of the proposed cooperative which fall within the purview of the subcommittee. In addition, there are broader questions with respect to how the practices involved in the Promenade conversion work elsewhere in the nation, and the effects they have on the pricing and availability of housing for millions of Americans.

I would therefore request that the Subcommittee on Commerce, Consumer and Monetary Affairs undertake an investigation of the Promenade conversion. My office is ready to give you any assistance which may be helpful to you in this matter.

I very much appreciate your consideration of this request.

Sincerely,

  
Michael D. Barnes

MDB/map

1512

November 17, 1980

Honorable Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce, Consumer,  
and Monetary Affairs  
Committee on Government Operations  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

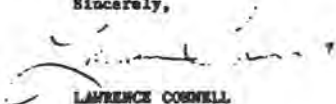
This is in response to your letter of October 24, 1980 regarding Title VI of Public Law 96-399 which addresses Condominium and Cooperative Conversion Protection and Abuse Relief.

As requested, I am enclosing a copy of my response to Chairman Reuss and St Germain on this matter. In that response I point out the restrictions which effectively preclude any lending activity by credit unions for condominium conversions. Further, I have contacted our regional offices to further explore the likelihood of any credit union involvement in conversion lending. These regional contacts established that no conversion lending had come to the attention of any Regional Directors and, further, there was agreement that a study by the agency on this matter was not likely to yield any further evidence of this type of lending activity.

As I indicated in my letter to Chairman Reuss and St Germain, I do plan to assist in the dissemination of the provisions of this Act through communications and speeches to appropriate organizations and associations. There will be an article on the provisions of the Condominium and Cooperative Conversion Protection and Abuse Relief Act of 1980 in the next issue of our publication "The NCUA Review". This publication is distributed to all federally insured credit unions as well as all NCUA staff. I have enclosed a copy of the article as it will appear. A copy of the publication will be forwarded to you as soon as it is available. I am also interested in the concept of the limited dividend or limited capital appreciation cooperative as an excellent vehicle for preventing the dislocation of lower income persons during conversion. By controlling subsequent resale prices, each such project would offer permanently affordable housing for low to moderate income persons. I intend to present this concept to appropriate organizations in a effort to increase the awareness of this viable alternative.

I do wish to assure you of my interest in this matter and my complete support for all of the efforts to render assistance to victims of conversions.

Sincerely,

  
LAWRENCE CORNWELL  
Chairman

1513



NATIONAL CREDIT UNION ADMINISTRATION  
WASHINGTON D.C. 20456

October 31, 1980

Honorable Henry S. Reuss  
Chairman  
Committee on Banking, Finance  
and Urban Affairs  
U.S. House of Representatives  
Washington, D.C. 20515

Honorable Fernand J. St Germain  
Chairman  
Subcommittee on Financial  
Institutions, Regulation and Insurance  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Chairman Reuss and Chairman St Germain:

This is in response to your letter of October 15, 1980 regarding the lending by federally insured financial institutions for the conversion of rental housing to condominiums and cooperative housing. I was pleased to see the enactment of P.L. 96-399 and particularly Title VI, the Condominium and Cooperative Abuse Relief Act of 1980 because it properly seeks to correct the problems caused by the type of conversions that provide for unlimited capital appreciation.

I am acutely aware of the problems which this growing number of conversions continues to create for low-and moderate-income and elderly and handicapped persons. Another type of cooperative, the limited dividend or limited capital appreciation cooperative, is perhaps the best alternative for preventing dislocation of lower income persons when their rental unit is converted to tenant ownership. Much more education is needed to acquaint the American public with the advantages of limited dividend housing cooperatives.

The nature of credit unions with their relatively small size, their lending restrictions and the limitations imposed by their common bond effectively precludes the type of lending addressed by §603 of Title VI. Generally, credit unions can lend only to members who buy individual cooperative or condominium units. Moreover, the 150% medium price limit is a further constraint on gentrification financing. While I can foresee no official regulatory action by NCUA, I nevertheless plan to communicate to appropriate organizations and associations regarding the possible adverse impacts of such lending and, as a member of the Federal Financial Institutions Examination Council, to work towards a continuous improvement in reducing all such adverse impacts.

Sincerely yours,

LAWRENCE CONNELL  
Chairman



CONGRESS PASSES THE "CONDOMINIUM AND COOPERATIVE ABUSE  
RELIEF ACT OF 1980"

Congressional findings indicate that, in spite of a shortage of adequate and affordable multifamily housing throughout the Nation, more than one million rental units will be converted to condominiums and cooperatives during the first half of the 1980's, not only in large metropolitan areas but also in medium and small communities. During conversion, approximately two-thirds of a rental property's tenants are displaced. This impact is most severely felt by the elderly, handicapped, and low to moderate income tenants.

Due to the growing number of such conversions, Congress passed as part of P.L. 96-399 the "Condominium and Cooperative Abuse Relief Act of 1980" which seeks to minimize the adverse impacts of condominium and cooperative conversions, particularly on the housing opportunities of elderly, handicapped and low to moderate income persons. It also seeks to assure that fair principles are followed whenever a condominium or cooperative is established. Further, the Act expresses the clear sense of the Congress that all Federally insured lenders, including credit unions, which grant business loans for conversions of rental housing to condominiums or cooperatives, should be discouraged from making such loans where the conversion will significantly restrict the housing options of these groups. At the same time, such lenders are encouraged to expand opportunities for home ownership by granting loans for conversions of buildings that are currently unoccupied. Credit unions and their members should be aware of this Congressional action and should disseminate this information whenever possible to appropriate persons, associations and organizations.

The Condominium and Cooperative Abuse Relief Act, effective October 8, 1980, is part of the "Housing and Community Development Act" Amendments of 1980, a comprehensive housing bill covering such areas as FHA programs, housing assistance programs, energy performance standards in buildings and community planning assistance. It spans the range of Congress' efforts to assure citizens the opportunity for a decent, sanitary place to live, to bring home ownership within the reach of a larger number of American families, and to build a sounder economic and social foundation for distressed communities, both large and small.

Another type of cooperative, the limited dividend or limited capital appreciation cooperative, is emerging as an excellent vehicle for preventing the dislocation of lower income persons during conversion. By controlling subsequent re-sale prices, each such project would offer permanently affordable housing for low to moderate income persons. Credit unions and their members are urged to acquaint themselves with this viable alternative.

FOR PUBLICATION IN THE NEXT ISSUE OF THE NCUA REVIEW

EDWARD E. ROSENTHAL, JR., SECRETARY  
BRUCE T. HUTTON, CLERK  
ROBERT E. FROSTBERG, JR.  
FORWARDED TO: SEN. J. EDWARDS, JR.  
JOHN EDWARDS, JR., SEN.  
WILLIAM E. LUTHER, JR.

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 9-277  
WASHINGTON, D.C. 20515

LYLE WILLIAMS, JR.  
AND JEFFREY, JR.  
AND JEFFREY, JR.  
MAJORITY—CAREY 125-4407

August 21, 1980

Hon. Harold M. Williams, Chairman  
Securities and Exchange Commission  
500 N. Capitol Street  
Washington, D.C. 20549

Dear Mr. Chairman:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend. While our inquiry has a national focus, we are specifically interested in examining a recent example of this trend: The proposed conversion of the Promenade Apartments in Bethesda, Maryland, by American Invscio, a privately-held corporation headquartered in Chicago whose principal activity is the conversion of rental units to condominium or cooperative status across the country. I am attaching, for your information, an August 19 letter to this subcommittee from Congressman Michael Barnes of the 8th Congressional District in Maryland, which raises serious questions about the proposed Promenade conversion and requests a subcommittee investigation.

We are concerned with whether securities laws have been violated in the sale of units (including stock in a cooperative housing corporation) in the Promenade Towers Mutual Housing Corporation, a Maryland corporation involved in the conversion of the Promenade Apartments in Bethesda, Maryland. The subcommittee staff is conducting an inquiry into whether the Promenade promoters may in some instances be selling shares in a corporation knowing that the "occupancy agreement" which accompanies the sale of such stock is not valid. It has come to our attention that in at least two instances purchase agreements have been entered into by foreign nationals who have no intention of occupying the units. We have also been advised that the sales agents at the Promenade are soliciting individuals who recently purchased units at the Grosvenor, a nearby condominium also converted by an affiliate of American Invscio. These individuals obviously cannot have two primary residences and are consequently being solicited to invest in Promenade units. In such instances, the promoters could be selling unregistered stock in violation of the securities laws. See United Housing Foundation, Inc. v. Forman, 421 U.S. 837, 95 S. Ct. 2051 (1974).

I writing to request that the SEC undertake an investigation of the situation described above to determine if the securities laws are being violated.

1516

Also, does the SEC have any information that cooperative developers in general regularly sell units to speculator/investors without registering with the SEC? Please supply examples of such violations.

Finally, please supply copies of all interpretive releases and letters concerning when cooperatives and condominium offerings are to be considered securities subject to registration requirements.

The subcommittee staff will supply you all leads it has developed and I request that you direct your staff to pursue the investigation.

Sincerely,

Benjamin S. Rosenthal  
Chairman

Enclosure

BSR:jb

1517

MICHAEL D. BARNES  
8TH DISTRICT, MARYLAND  
  
LEGISLATIVE STAFF OFFICE  
1807 LINCOLN UNIVERSITY DRIVE, SUITE 200  
WASHINGTON, D.C. 20515  
(202) 525-5341

APPOINTMENT BY SENATE STAFF OFFICE  
2534 SENECA AVENUE  
SUITE 200  
BETHESDA, MARYLAND 20814  
(301) 388-2865  
  
SPECIAL PHONE FOR THE  
HEARING HOURS  
TTY-234-5795  
TTY-234-2867



Congress of the United States  
House of Representatives  
Washington, D.C. 20515  
August 19, 1980

COMMITTEE ON FOREIGN AFFAIRS  
SUBCOMMITTEE  
EUROPE AND THE MIDDLE EAST  
INTERNATIONAL ECONOMIC  
POLICY AND TRADE  
  
COMMITTEE ON THE JUDICIARY  
SUBCOMMITTEE  
IMMIGRATION, REFUGES AND  
INTERNATIONAL LAW  
ADMINISTRATIVE LAW AND  
GOVERNMENTAL RELATIONS  
  
COMMITTEE ON THE DISTRICT  
OF COLUMBIA  
SUBCOMMITTEE  
JUDICIARY, MANPOWER  
AND EDUCATION

The Honorable Benjamin S. Rosenthal  
Chairman, Subcommittee on Commerce,  
Consumer and Monetary Affairs  
B-377 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

Recently it was announced that The Promenade, an apartment building at 5225 Pooks Hill Road in Bethesda, Maryland, would convert from its current status as rental apartments into a cooperative. The decision of the Promenade's owners to undertake the conversion has resulted in local litigation to try to stop it, and the case is presently in court. The Promenade is located in Montgomery County in the 8th congressional district of Maryland, which I represent.

I believe that the manner in which this conversion is being attempted raises serious questions of public interest which fall within the jurisdiction of the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs, which you chair. There are concerns with respect to potential consumer fraud and false advertising and questions involving the financing of the proposed cooperative which fall within the purview of the subcommittee. In addition, there are broader questions with respect to how the practices involved in the Promenade conversion work elsewhere in the nation, and the effects they have on the pricing and availability of housing for millions of Americans.

I would therefore request that the Subcommittee on Commerce, Consumer and Monetary Affairs undertake an investigation of the Promenade conversion. My office is ready to give you any assistance which may be helpful to you in this matter.

I very much appreciate your consideration of this request.

Sincerely,

*Michael D. Barnes*  
Michael D. Barnes

MDB/map

ROBERT S. ROSENTHAL, JR., CHAIRMAN  
 HON. J. EDGAR HOOVER, JR.  
 HON. J. EDGAR HOOVER, JR.  
 HON. J. EDGAR HOOVER, JR.  
 HON. J. EDGAR HOOVER, JR.

LETTER WILLIAM, JR.  
 HON. J. EDGAR HOOVER, JR.  
 HON. J. EDGAR HOOVER, JR.  
 HON. J. EDGAR HOOVER, JR.

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
 House of Representatives  
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM 5-07  
 WASHINGTON, D.C. 20515

September 24, 1980

Hon. Harold M. Williams, Chairman  
 Securities and Exchange Commission  
 500 N. Capitol Street  
 Washington, D.C. 20549

Dear Mr. Chairman:

With further reference to my letter to you of August 21, 1980, concerning possible violations of the securities laws in connection with the sale of stock in Promenade Towers Mutual Housing Corporation, I enclose copies of mortgage commitment letters dated June 11, and June 12, 1980, between Washington Federal Savings and Loan Association and American Invsco Corporation (an affiliate of Promenade Towers Mutual Housing Corporation). These letters were given to the subcommittee by the Federal Home Loan Bank Board and I request that you keep them confidential until such time as the subcommittee determines whether they may be released to the public.

You will note that the mortgage commitment clearly contemplates a certain proportion of "investor loans." See paragraph 1, 2(c), and 6 of the June 11, 1980, letter in particular. Paragraph 6, p. 3, provides that up to 18 percent of the cooperative apartments may be sold to investors. Under these circumstances, I am informed that United Housing Foundation, Inc. v. Forman, 421 U.S. 837 would not apply and that the sale to investors may be subject to the securities laws. Please advise the subcommittee whether the terms of their agreement provide sufficient data to begin the investigation requested. If not, please let me know what data you would require to initiate an investigation as to whether sales of stock in a cooperative to investors violate the securities laws.

I also await a complete response to my letter of August 21.

Sincerely,

Benjamin S. Rosenthal  
 Chairman

Enclosures

BSR:jfb

ANTHONY A. BRESNICKA, ALF. BRESNICKA  
 ROBERT T. GUTEN, GUTEN  
 ROBERT T. GUTEN, GUTEN  
 ROBERT T. GUTEN, GUTEN  
 ROBERT T. GUTEN, GUTEN  
 ROBERT T. GUTEN, GUTEN

LYLE WILLIAMS, LYLE  
 LYLE WILLIAMS, LYLE  
 LYLE WILLIAMS, LYLE  
 LYLE WILLIAMS, LYLE  
 LYLE WILLIAMS, LYLE

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
 SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM 5427  
 WASHINGTON, D.C. 20540

October 20, 1980

Hon. Harold M. Williams  
 Chairman  
 Securities and Exchange Commission  
 500 North Capitol Street  
 Washington, D. C. 20549

Dear Mr. Chairman:

This is in further reference to my letters to you dated August 21 and September 24, 1980, regarding possible violation of securities laws by companies selling investments in cooperative stock corporations.

Enclosed is a copy of an agreement dated September 28, 1979, between Citibank, N.A. and East 56th Plaza, Inc. This agreement was obtained by the subcommittee pursuant to subpoena from the New York State Attorney General, who is conducting an investigation under New York law of the conversion of 400 E. 56th St. to cooperative ownership. The developer involved in this transaction is an affiliate of American Invsco Corporation, the subject of my previous letters.

You will note that the enclosed agreement clearly contemplates "investor" sales. In fact, "up to 25% can be used for 'investor' units or those purchased subject to an existing lease." (First underlined paragraph, p. 1.) Thereafter, the term investor is used in numbered paragraph 3 (p. 1) and in the second full paragraph on page 2. In the loan commitment for the Promenade Apartments submitted with my letter of September 24, 1980, similar "investor" loans were contemplated.

There seems to be no doubt but that a certain percentage (up to 30 or 40 percent in some parts of the country) of coop units are sold to investors. There also seems to be no doubt but that the developer the subcommittee is investigating intends to sell to investors and actively participates in making sales to investors (by, for example, making sure end-financing is available for investors). It is my view that developers engage in other activities which tend to show intent to sell and actual sales to investors. For example, the records of one recent condominium conversion done by an affiliate of American Invsco Corporation show a pattern of sales to Corporation executives and other insiders and, in some cases, quick sales thereafter. I believe coop sales would follow a

1520

similar pattern. In addition, we have been advised that sales "for investment" are solicited from previous purchasers of apartments in other buildings converted by American Invsco.

In short, I believe there exists enough evidence of a pattern of intent to sell to investors for the SEC to conduct an investigation. This situation clearly goes beyond the cases in which the SEC has declined to act because the "economic reality" shown was the purchase of living quarters for personal use. Rather, this situation demonstrates sales of an investment -- "where one parts with his money in the hope of receiving profits from the efforts of others." (United Housing Foundation v. Forman, 421 U.S. 837, 856-8).

I await your reply.

Sincerely,

Benjamin S. Rosenthal  
Chairman

BSR:jv

Enclosure



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20540

11 9 NOV 1980

The Honorable Benjamin S. Rosenthal  
Chairman, Commerce, Consumer and Monetary  
Affairs Subcommittee of the Committee  
on Government Operations  
House of Representatives  
Rayburn House Office Building, Room B-377  
Washington, D. C. 20515

Re: Promenade Apartments

Dear Congressman Rosenthal:

I am responding to your letters of August 21, September 24 and October 20, 1980 requesting an investigation by the Commission's staff to determine whether the offering of cooperative units in the Promenade Apartments in Bethesda, Maryland involves a violation of the federal securities laws. In addition, you requested copies of interpretive letters and releases involving condominiums and co-ops.

Although it is apparent from the loan commitment letters furnished by you that there may be some purchasers of the Promenade units who will not be occupying their units, this does not necessarily mean that an investment contract is being offered or sold to such persons. The non-occupancy of a cooperative or condominium unit by a purchaser is only one factor to be considered in determining whether an investment contract is involved. Other factors, such as whether the units are being marketed primarily as investments rather than housing and whether there are collateral arrangements (e.g., pooled rental agreements) designed to enhance the investment aspects of the units, must also be considered.

In connection with the foregoing, you may wish to review the materials enclosed with this letter. These materials consist of staff letters and Commission releases relevant to condominiums and co-ops. Included among them are Securities Act Release Nos. 5347 and 5382, which discuss generally the views of the Commission regarding the application of the Securities Act to the sale of interests in real estate. These releases, when coupled with the Supreme Court's decision in United Housing Foundation, Inc. v. Forman, 421 U.S. 837 (1975), make it clear that the existence of a security in the real estate context turns largely on whether the units being offered are deemed to be investments.

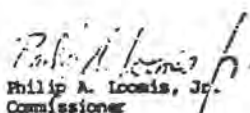


1522

whose success is dependent on the efforts of others. The information available to us concerning the offering of the Promenade units is not conclusive on this issue. Accordingly, we are unable to state that the Promenade offering involves a security or that it is in violation of the federal securities laws.

I hope that the foregoing discussion and the enclosed materials will prove helpful and provide some guidance to you and your staff. If you have any additional questions, do not hesitate to write.

Sincerely,

  
Philip A. Loomis, Jr.  
Commissioner

Enclosures

1523

*Congress of the United States*  
*Committee on Government Operations*  
*House of Representatives*

January 22, 1981

Hon. Harold M. Williams, Chairman  
Securities and Exchange Commission  
500 M. Capitol Street  
Washington, D. C. 20549

Dear Mr. Chairman:

On November 19, 1980, I received a letter signed by Commissioner Loomis (copy attached) in reply to several letters I had sent to you requesting an SEC inquiry into the activities of American Invsco Corporation or its affiliates in selling units in the Promenade cooperative to investors and for investment purposes.

Commissioner Loomis' letter states that in addition to sales to non-occupants, factors "such as whether the units are being marketed primarily as investments rather than housing" and other factors "designed to enhance the investment aspects of the units, must also be considered" in determining whether an investment contract is involved. As I indicated in my previous correspondence, I have been informed that units in the Promenade are being marketed for investment, as evidenced by the fact that in several instances multiple units have been sold to a single purchaser, sales have been made to foreign investors and other non-residents, and previous purchasers of units in other Invsco buildings have been solicited to purchase in the Promenade for investment purposes.

I am also now informed that blocks of units in the Promenade have been sold or allocated to real estate agents who are reselling to investors. Specifically, I am informed that Terrence McCarthy, who is a broker associated with Routh-Robbins Realtors in Maryland has informed prospective purchasers that he has purchased units which are available for resale to investors. Mr. McCarthy is alleged to have told prospective investors that his brokerage organization would also handle the rental of the units involved, so the investor would be assured of investment income. I am also informed that similar investment promotion schemes have been undertaken by brokers connected with Town and Country Properties, Inc., of Maryland. In short, there is evidence that sales for investment are taking place. I believe these facts warrant investigation to determine if Federal securities laws are being violated.

1524

Mr. Loomis' letter states that the SEC does not have sufficient information to make a determination as to whether "the Promenade offering involves a security or that it is in violation of the Federal securities laws." This raises the question: What, if anything, has the SEC done in the past five months to obtain additional information about the possible violation of law to which I first called your attention last August? If the information available to you is "not conclusive," what, if anything, does the SEC do to obtain information which is conclusive?


Finally, I have reviewed the materials enclosed with Commissioner Loomis' letter of November 19, 1980. Securities Act Release No. 5347 seems to me to relate directly to a situation such as that outlined above, where a unit is sold "coupled with an offer or agreement to perform or arrange certain rental or other services for the purchaser." I would think, however, that the Forman case would be controlling. Commissioner Loomis refers to only part of the critical language of the court's decision in that case. The court stated as follows:

"What distinguished a security transaction...is an investment where one parts with his money in the hope of receiving profits from the efforts of others, and not where he purchases a commodity for personal consumption or living quarters for personal use." 95 S.Ct. at 2063.

Commissioner Loomis omitted reference to the latter part of the phrase: "not where he purchases a commodity for personal consumption or living quarters for personal use."

I would appreciate a reply to the questions and issues raised above no later than February 2, 1981.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman  
Subcommittee on Commerce,  
Consumer, and Monetary Affairs

Attachment

BSR:jb

1525

*Congress of the United States*  
*Committee on Government Operations*  
*House of Representatives*

February 5, 1981

Hon. Harold M. Williams, Chairman  
Securities and Exchange Commission  
500 N. Capitol Street  
Washington, D. C. 20549

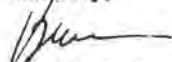
Dear Mr. Chairman:

This is in further reference to my letter of January 22, 1981, regarding the activities of American Invsco Corporation or its affiliates in selling shares of stock in the Promenade cooperative to investors and for investment purposes.

I had previously informed you that the marketing affiliate of American Invsco, Home Marketing of America, was soliciting individuals who had purchased at the Grosvenor, a previous Invsco conversion, to buy one or more units at the Promenade. I now enclose an example of the solicitation mailed to Grosvenor owners asking them to purchase at the Promenade. It seems clear that the "Substantial Equity" referred to in the Grosvenor units allows the prospective purchaser to borrow for an investment purchase at the Promenade. While the language of the solicitation is ambiguous, the possibility that the intent and practice is to solicit sales for investment warrants further investigation by the SEC.

In my January 22, 1981, letter I asked for a reply by February 2, 1981, but have not received one. Please reply to that letter and to this one by return mail.

Sincerely,



Benjamin S. Rosenthal, Chairman  
Subcommittee on Commerce,  
Consumer, and Monetary Affairs

Enclosure



Dear Residents,

Because of your wise decision to purchase at Grosvenor Park you have

## **Substantial Equity**

which enables you to take advantage of a

## **Ground Floor Opportunity**

to purchase at the Promenade with resident discounts and below market financing

## **Call Terry Burch**

I encourage any interested resident to contact me for a Residential Market Evaluation of your home.

• 493-6500 •

Home Marketing of America

10500 Rockville Pike, Suite G-8, Rockville, Maryland 20852 Telephone (301) 493-6500



# LIMITED OFFER

*Offer May Be Withdrawn At Any Time, Without Notice.*



## *The Promenade*

*A Mutual Housing Corporation*

CURRENT  
RESIDENT DISCOUNTS  
Now Available To The Public And Residents.

### THE BENEFITS

(Totalling Approximately 14% In Discounts & Allowances)

- ☒ 5% Discount Off Purchase Price
- ☒ 2% Credit  
If Purchased Before 1/27/81 & Closed Before 4/1/81.
- ☒ 6-Month Rent Credit  
Non-Residents Will Be Credited With Average Rent  
On Type Of Unit Chosen.
- ☒ No Monthly Fee 'Til 1982.  
Developer Pays It Through 12/31/81. Exclusive Of Base  
Requirement. Can Also Be Taken As A Credit.
- ☒ Closing Cost Credit  
Closing Costs Customarily Paid By Purchaser Will Be Paid  
By Developer. Not To Exceed \$500.

## The Second Best Address In The Washington Area



### The Promenade



and ultimately for those of you moving into the area, it is an available  
the only time in the area.

The Promenade is located on twenty acres of private wooded and  
landscaped grounds in prestigious Bethesda, just off the Wisconsin  
Avenue beltway entrance. The spacious suites feature custom kitchen,  
stainless steel appliances and parquet floors, and most have room  
size balconies.

A private shopping and service center, Olympic-sized pool and steam  
bath, private tennis club, private health club, elegant party room, and  
private ballroom with 24-hour security are just a few of the exceptional  
amenities.

1 Bedroom suites from The Mid Cities  
2 Bedroom Suites from \$10,100

525 Parkview Road, Bethesda, Md 20814  
Shown By Appointment Only And Strictly 9AM to 7PM

301/297-9666



Equal Housing Opportunity  
Selling Under Contract



WALTER A. ✓  
Valeria Spero  
Apt. A-402  
10200 Rockville Pike  
Rockville, Md. 20852



1529



1530



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20540

26 FEB 1981

The Honorable Benjamin S. Rosenthal  
Chairman, Commerce, Consumer and Monetary  
Affairs Subcommittee of the Committee  
on Government Affairs  
House of Representatives  
Rayburn House Office Building, Room B-377  
Washington, D.C. 20515

Re: Promenade Apartments

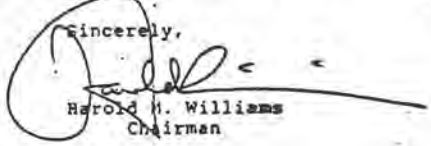
Dear Congressman Rosenthal:

Thank you for your letters of January 22 and February 5, 1981 further concerning your request for an investigation of the sale of residential units of the Promenade Apartments cooperative.

Based on the information which you have forwarded to the Commission, I cannot conclude that the units necessarily should be considered investment contracts under the federal securities laws. Moreover, it does not appear to me that these facts warrant the expenditure of significant Commission resources in any independent investigation of the sale of the apartment units. As a general matter, circumstances, such as appear to be presented by the conversion of the Promenade Apartments to a cooperative, do not represent an important priority in allocating the Commission's limited manpower to most effectively and efficiently protect the integrity of the securities marketplace. Indeed, insofar as your primary objective apparently concerns the displacement of prior rental tenants of the Promenade, whether subsequent purchases of converted cooperative units would come within the ambit of the federal securities laws would not seem a germane issue.

I hope that this letter is fully responsive to the questions you have raised.

Sincerely,

  
Harold H. Williams  
Chairman

1531

Benjamin S. Rosenthal, N.Y. Chairman  
John G. Brown, Jr., N.Y.  
Richard C. Brown, N.Y.  
William F. Brown, N.Y.  
William F. Brown, N.Y.  
William F. Brown, N.Y.

NINETY-SEVENTH CONGRESS  
Congress of the United States  
House of Representatives  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 2-277  
WASHINGTON, D.C. 20518

Little Williams, N.Y.  
Little Williams, N.Y.  
Little Williams, N.Y.  
Little Williams, N.Y.  
Little Williams, N.Y.  
Little Williams, N.Y.

March 18, 1981

Hon. Phillip Loomis  
Acting Chairman  
Securities and Exchange Commission  
500 N. Capitol Street  
Washington, D. C. 20549

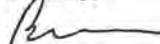
Dear Mr. Loomis:

On March 30, 31, and April 1, 1981, the Commerce, Consumer, and Monetary Affairs Subcommittee will begin hearings into the public policy implications and the impact of Federal programs and activities on the conversion of rental housing to condominium and cooperative ownership.

Your testimony is requested on Tuesday, March 31, 1981, at 9:30 a.m. in Room 2154 of the Rayburn House Office Building. Your testimony should deal with the issues raised in my letters of August 21, September 24, and October 20, 1980, and January 22 and February 5, 1981, to former Chairman Williams and your reply of November 19, 1980, and Chairman Williams' reply of February 26, 1981.

Please supply the subcommittee with 75 copies of your testimony no later than March 27, 1981.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:jfb

COLLINS E. BROWDER, JR., CHAIRMAN  
ROBERT T. MATTHEI, CALIF.  
ROBERT V. STUBBS, ILL.  
FREDERICK J. BYRNE, N.J.  
JOHN C. COFFEE, JR., MISS.  
CLAYTON E. LUTTRELL, N.C.

MINUTY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 5-27  
WASHINGTON, D.C. 20515

LYLE WILLIAMS, DEM.  
AND JEFFERSON, DEM.  
AND WILSON, DEM.  
AND WILSON, DEM.  
AND WILSON, DEM.

September 15, 1980

Hon. Max Cleland  
Administrator  
Veterans Administration  
810 Vermont Avenue, N.W.  
Washington, D. C. 20420

Dear Mr. Administrator:

The Commerce, Consumer, and Monetary Affairs Subcommittee is conducting a preliminary inquiry into the public policy implications of the dramatic increase across the country in the number of conversions of rental units to condominium and coop ownership; and how governmental programs and activities impact this conversion trend.

Since VA loans are available to prospective condominium or cooperative purchasers only in developments approved by your agency, the standards set by VA directly affect the quality of conversion projects.

In order to pursue our inquiry, please supply the subcommittee with a complete copy of VA standards relating to conversions of rental properties to condominium or cooperative ownership dealing with the following:

- Legal requirements - What kind of review do you undertake of the legal documents required for a project? Do you review state or local agency actions or pending or proposed litigation?
- Project conditions - How do you require that the architects or engineers report on the condition of structural and major mechanical systems be based on thorough analysis and be conducted by independent entities?
- Warranties - What kinds of warranties do you require against latent defects in the project?
- Management - What standards do you have on management arrangements involving the developers or organizations associated with them?
- Budget - How do you review the proposed budget of a proposed condo or coop for accuracy and completeness? How do you determine whether an adequate reserve fund for maintenance, repairs, and replacement of common elements is present?

1589

- I. Owner-occupant and investor purchase rules - What are your rules to insure that units will be occupied as primary residences by owner-occupants? How are these rules enforced?

We anticipate that our inquiry will culminate in hearings and in such other action as the subcommittee may direct. In order to prepare these hearings, we request that you make the information requested herein, and such other information as our staff may request, available as soon as possible.

If your staff has any questions, they may contact the subcommittee at 225-4407.

Sincerely,

Benjamin S. Rosenthal  
Chairman

BSR:jb

1534

ROBERT T. MATTHEWS, JR., CHAIRMAN  
ROBERT T. MATTHEWS, JR., CHAIRMAN  
ROBERT T. MATTHEWS, JR., CHAIRMAN  
ROBERT T. MATTHEWS, JR., CHAIRMAN  
ROBERT T. MATTHEWS, JR., CHAIRMAN

NINETY-SIXTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMERCE, CONSUMER, AND MONETARY AFFAIRS  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 8-205  
WASHINGTON, D.C. 20515

U.S. GOVERNMENT PRINTING OFFICE: 1980-205-1534

October 15, 1980

Hon. Max Cleland, Administrator  
Veterans Administration  
810 Vermont Avenue, N.W.  
Washington, D. C. 20420

Dear Mr. Cleland:


This is a followup to my letter of September 15 regarding the subcommittee's investigation into the Federal response to the growing number of conversions, across the country, of rental units to condominium and cooperative ownership. In that letter, I requested information on the Veterans Administration's policies, practices, and procedures regarding home loan guarantees for qualifying individuals who do not intend to live in the home or condominium unit for which a mortgage guarantee is being requested. These are individuals who purchased housing as investors and not as owner-occupants.

It is my understanding, based on conversations between subcommittee staff and your Office of General Counsel, that the Veterans Administration does not make loan guarantees to investors. Pursuant to 38 U.S.C. 1804(c), the VA will not make a loan guarantee unless the applicant "certifies...that he intends to occupy the property as his home."

It is also my understanding that some instances have come to the attention of VA regarding false certifications of intention to occupy the property as a home. Apparently, this problem was particularly acute in Denver, Colorado.

It would materially assist the subcommittee's investigation if you would provide us with as much information as possible about the nature and extent of false certifications across the country and in Denver relating to your home loan guarantee program. We hereby request that you provide the subcommittee with as much detailed information as possible, including the names of individuals, developers, and/or converters, and financial institutions involved. An oral or written response is requested by October 27, 1980. If there are any questions, please contact the subcommittee staff director, Peter S. Barash.

Sincerely,

  
Benjamin S. Rosenthal  
Chairman

BSR:bb

1535

Honorable Benjamin S. Rosenthal  
Chairman  
Commerce, Consumer, and Monetary  
Affairs Subcommittee  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

We are happy to respond to your request of September 15, 1980 for information concerning the conversion of rental units to cooperative or condominium units which are to be financed with the assistance of VA guaranteed loans.

Concerning cooperative housing, the VA home loan program is required by section 1803(d) of title 38, United States Code to secure a first lien on realty when granting a VA guaranteed loan. Since it is not possible to secure a first lien on the realty when a veteran purchases a stock or other personal interest in an individual cooperative unit, the VA is legally precluded from guaranteeing home loans in a cooperative. VA Regulation 4343(38 CFR 36.4343), however, currently provides a limited exception which grants the Administrator authority to approve loans for cooperatives where all the participants are veterans obtaining VA guaranteed loans. Few cooperative loans have been guaranteed by the Veterans Administration in recent years.

Loans for the purchase of units in condominium conversions became eligible for VA guaranty on July 1, 1979 (Pub. L. No. 95-476 section 104(1), codified at 38 USC 1810(a)(6)). Loans on individual condominium conversion units may be guaranteed provided the project or development is approved by the Administrator under criteria which the Administrator has prescribed in the VA Regulations. The 4300 series of VA Regulations (38 CFR 36.4300 - 4393) govern the approval of VA home and condominium loans. Specific condominium project approval requirements (governing all types of condominium projects) are located at VA Regulations 4356 through 4360.1 (38 CFR 36.4356 - 36.4360a). For your use we have included a copy of DWP Circular 26-77-23 which includes instructions to field stations concerning condominiums and a copy of VA Regulations 4356 - 4360.1 (38 CFR 36.4356 - 36.4360a).

In order to be as helpful as possible, we will respond to your specific questions a. through f. using your lettered designations.

a. **Local Requirements** - VA Regulations 4350, and 4356 through 4360 (38 CFR 36.4350, 36.4356 -- 36.4360) govern VA's review of project legal documentation for condominiums including conversions. VA field stations, except in limited circumstances, are authorized to review project legal documentation for condominium conversions. The project legal documentation for each development is reviewed to assure that none of the enabling provisions establishing the condominium violate VA laws or regulations. This includes the Declaration, bylaws, plat and other project legal documentation as appropriate. State or local agency reports are reviewed for proposed condominium conversions or conversions in which the developer continues to control the majority of votes in the development. Pending litigation would not be reviewed by the VA local office. However, VA Regulation 4350 (38 CFR 36.4350) requires the lender extending a VA loan for a condominium unit make certain the veteran purchaser obtains good title to the unit. A lender to assure good title would generally require a title search which would encompass litigation that could adversely affect the veteran's title.

b. **Project Conditions** - VA Regulation 4360.1 (38 CFR 36.4360a) governs the appraisal requirements for proposed and existing condominium conversions. If the development is proposed to be converted or converted with the developer in control of the project or marketing units which have not been previously occupied as condominium units, the developer must furnish structural and mechanical component statements on the present condition of all accessible structural and mechanical components material to the use and enjoyment of the condominium. These statements are to include a review of the roof, elevators, heating and cooling, plumbing and electrical systems and must be completed by a registered professional architect and/or engineer, (VA Regulation 4360.1(R)(3), 38 CFR 36.4360a(b)(3)). The statements are secured from registered professional engineers and/or architects to assure the integrity and quality of the statement, and are reviewed by the local office for compliance with the regulations and sufficiency of the analysis.

c. **Warranties** - No warranty is required by the VA on condominium conversions. Since the developer in a conversion may repair, alter, or improve only a portion of the existing structure, condominium conversions are considered as existing construction in which no VA warranty is required. The developer, however, is responsible for those complaints which can be associated with components which were installed, modified, repaired or altered as a part of the conversion.

d. **Management** - Management of the condominium is tied to developer control of the owners' association. Transfer of control of the condominium owners' association from the developer to the unit owners must be accomplished the earlier of the following dates: 120 days after the date by which 75 percent of the units have been conveyed to individual unit owners or a certain specified date depending on the size of the development (usually three to five years after the first unit is conveyed to a unit owner in a

small development and five to seven years after the first unit is conveyed to a unit owner in large developments. VA Regulation 4359(A), 38 CFR 36.4359(a)). Management control of the owners' association is to be assumed by the individual unit owners from the developers at that point. Specifically, VA Regulation 4359(A) (38 CFR 36.4359(a)) prohibits developer contracts which bind the owners' association after transfer of developer control unless the contract may be terminated without penalty by the association upon not more than 90 days' notice to the other party to the contract. In addition, VA Regulation 4359(E)(3) (38 CFR 36.4359(e)(3)) governs professional management contracts. Professional management contracts must be terminable by the association for cause upon 30 days' notice, run for a reasonable period of from 1 to 3 years, and be renewable only by mutual consent of the owners' association and professional management company. The foregoing regulations concerning the developer (generally called the declarant in the regulations) apply equally to organizations associated with the developer. See VA Regulation 4356(B)(1) and (4) (38 CFR 36.4356(b)(1) and (4)).

e. Budget - The accuracy and completeness of the proposed budget of the owners' association is reviewed from an underwriting standpoint. If in the appraisal process of the proposed conversion it is determined that the budget figures produce a low monthly assessment, a fair monthly homeowners' association fee is determined by the appraiser and used by the VA in credit underwriting the individual VA condominium loans. Concerning reserve funds, VA Regulation 4359(R)(4)(h) (38 CFR 36.4359(b)(4)(ii)) requires that a reserve fund be established in new or proposed condominium conversions. Determinations for adequacy of the reserve funds are based upon the economic life of respective structural and mechanical components and their estimated cost of replacement. This information is obtained through the architectural and engineering statements prescribed in VA Regulation 4360.1(B)(3) (38 CFR 4360a(b)(3)). If reserve funds are determined to be insufficient, appropriate adjustments are made in the value of the individual units.

f. Owner-occupant and investor purchase rules - Each proposed condominium development must meet a presale requirement prior to the guaranty of individual unit loans in the condominium. VA Regulation 4360.1(C) (38 CFR 36.4360a(c)) requires that bona fide agreements of sale must have been executed by purchasers (who are contractually obligated to complete the purchase and who intend to occupy the property as their principal place of residence) of 70 percent of the total number of units in the project. Field stations are delegated authority on behalf of the Administrator to lower the presale requirement to 50 percent when market acceptance of the project has been clearly demonstrated. Lower presale requirements will be considered only on a case basis by VA Central Office. Existing resale condominium conversion projects (in which the developer is no longer in control of the project or marketing units) must have an occupancy level based on owner residency of 70 percent of the total units. Field stations again may lower this owner-occupancy required level to 50 percent based on clearly demonstrated market acceptance, but only VA Central Office may lower the allowable owner-occupancy level to under 50 percent. The presale requirement for proposed condominiums and the owner-occupancy level for existing-resale condominiums are examined at the time of VA condominium project approval.



1538

We hope that we have furnished your subcommittee with complete information to assist you in the preparation for hearings concerning condominium and cooperative conversions.

Your interest in the VA Loan Guaranty program is appreciated.

Sincerely,

MAX CLIFLAND  
Administrator

Enclosures

cc: 02D  
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OCT 28 1980

Honorable Benjamin S. Rosenthal  
 Chairman  
 Committee on Consumer and Monetary  
 Affairs Subcommittee  
 House of Representatives  
 Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your followup letter of October 15, 1980 concerning the Veterans Administration occupancy requirements for persons purchasing a home, condominium or mobile home with the assistance of a VA guaranteed loan.

Title 38, United States Code, section 1804(c) requires that the veteran acquiring residential property with a VA guaranteed loan certify that he or she intends to occupy the property within a reasonable time. The VA purchase loan program is for the sole purpose of placing a veteran in a home. The financing of investor properties is not an eligible purpose for a VA guaranteed loan.

Non-occupancy of homes or condominiums by veterans does not appear to be a substantial problem with the VA loan program. In the few instances where non-occupancy does occur the reasons vary broadly and include fraudulent purchases of properties for investment or for occupancy by relatives. In some instances, however, intervening circumstances, such as job transfers or illness, prevent veterans legitimately from occupying VA purchased housing. Cases in which non-occupancy is alleged are investigated by the VA, and if substantiated, the cases are referred to the United States Attorney for possible prosecution. In most cases the United States Attorney declines to prosecute non-occupancy cases because of the nature of the offense, i.e., no government loss and the difficulty of proving intent.

Information concerning the veteran's non-occupancy of a home is filed in the veteran's VA guaranteed loan folder. Statistical records are not maintained by field stations or VA Central Office of the number or types of false occupancy certifications in a given area or on a nationwide basis. From our discussions with VA field stations, we are not aware of any substantial number of non-occupancy cases. There also has not been an acute problem of non-occupancy in the Denver area.

1540

We would like to note the VA does not have any indication that there is a greater number of fraudulent non-occupancy cases in VA loans for the purchase of condominiums than VA loans for the purchase of single-family housing. We are aware that there may be a number of legitimate investor purchasers with other than VA financing in a condominium development. This is one of the reasons why VA imposes a presale requirement prior to the guaranty of the first VA loan in a development. As discussed in our letter of October 17, 1980 (p. 3, lettered paragraph f.), the VA presale requirement may not be lowered to less than 50 percent without VA Central Office prior approval. Since we feel that occupancy purchasers probably make for a sounder, more viable condominium development, we count multiple unit purchases by an investor as only one sale for the purpose of meeting any VA presale requirement. This prevents a development having a large number of units purchased by non-occupant investors from qualifying for VA guaranteed loans until such time as the number of owner occupant units is increased to allow the development to meet the VA presale requirement.

We regret that we are unable to furnish a more detailed response to your inquiry in the time allotted by your Subcommittee. If your Subcommittee feels that it would be useful, our office could poll the 50 VA field stations concerning non-occupancy. Any inquiry to the field stations would require time to initiate contact, receive responses and compile data. Information could be difficult to obtain in some instances with data not readily available through current record-keeping. Since our office is uncertain as to the types and scope of data which would be useful to the Subcommittee, it would be helpful if the Subcommittee could furnish more detailed information and a sample set of questions of the types of data desired. We hope the information currently submitted will be useful.

Your continued interest in the VA loan guaranty program is appreciated.

Sincerely,

MAX CLELAND  
Administrator

cc: 020  
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