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## New trend for first-time home buyers

By Kiley Russell  
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In the hypercompetitive world of Bay Area real estate, a trend has emerged that brightens the prospects for first-time home buyers but tightens the options for the most cash-strapped among us.

The trend -- developers converting rented apartments to owner-occupied condominiums -- has been gaining speed in the past few years. As interest rates stayed low and mortgages were easily accessible, more first-time buyers were able to get into condominiums in the \$200,000-to-\$500,000 range while being priced out of more traditional -- and expensive -- homes in this hot real estate market.

The median price for a Bay Area home rose to a record \$628,000 in April. That was up 7.2 percent from April a year ago, according to DataQuick Information Services.

"The trend has been instilled for a ... few years now, largely because of the escalating construction prices (for single-family homes). At a certain point, it's very difficult to construct new product at somewhat of a reasonable price," said Alexis Wong, president of Acquest Residential, an urban infill and mixed-used developer based in San Francisco.

Acquest is involved in about three times as many condo conversions in the Bay Area than it was a few years ago.

"It's supply and demand: When more developers are looking for these types of opportunities, (apartment building owners) become more interested in selling their product," Wong said.

The phenomenon has been common for many years in dense communities such as San Francisco. But it is also becoming more prevalent along commute corridors in places such as San Ramon, Walnut Creek, Concord and Hayward, where apartment stock is plentiful.

Cindy Siwecki, vice president of marketing and research at Reiser Group, an Alamo-based real estate sales and service company, estimates that of all the new homes sold in the Bay Area roughly 30 percent to 40 percent are condo conversions.

Just a couple of years ago, conversions accounted for about 15 percent of sales, Siwecki said.

"We have projected 2,000 units to close in 2006; about 1,000 will be condo conversions," Reiser Group CEO Tom Reiser said.

"It's affordability for people. ... It's the only way that entry level buyers can enter the market," he said.

Apartments being converted to condominiums are also more palatable to city officials and existing neighbors who might otherwise complain about the high density. When changing for-rent apartments to for-sale condos, builders generally are not increasing densities and so can expect less ire from grass-roots groups.

Developers are facing more and more political skepticism, however, from planning departments and city councils that are worried about the loss of affordable rental stock. Local governments are becoming much more interested in managing how and when conversions are allowed.

"The good news (developers) are telling you is that this is an opportunity for people to get into ownership housing," said Concord Housing Manager Amy Hodgett. "Yes, that is true; but the other side of the coin is that, by and large, most of the existing tenants that are there end up moving on. So folks with higher incomes end up displacing people with lower incomes when rental property turns into ownership property."

Eventually, this reduced rental supply could push up apartment rents, possibly displacing more people, but also spurring more investment in new rental stock.

"There isn't that much bare ground left in Contra Costa County that's inside the urban limit line and in the cities and zoned for housing. It's hard to find developable sites right now. The next thing developers do in this market is cast an eye around to find product that can be converted," Hodgett said.

To prevent a rush on rental units, several cities, including Concord, Walnut Creek, Dublin, Livermore and Pleasanton, have either created new condo conversion rules or will soon begin rewriting their old ones.

Antioch just updated its ordinance to prevent most conversions unless there is a 4.5 percent citywide apartment vacancy rate and to mandate that 70 percent of the newly created condos in a conversion are owner occupied to discourage absentee landlords.

"Hopefully this will ensure we don't rip into the affordable side with the rental units. You have to be careful," said City Councilman Arne Simonsen.

The Antioch rules review was prompted by an Acquest proposal to convert 128 units to for-sale condos on about five acres just south of Highway 4 near the Pittsburg border.

It was the first time since the 1980s that a developer had made such a request, so it was a good time to update the conversion ordinance, especially because more conversion project proposals are expected, Simonsen said.

"We realized we wanted to raise the bar on this" without discouraging the practice all together, he said.

"This is the greatest way for young families to get into the housing market and give them the ability to write off their mortgage interest and build up equity," Simonsen said.

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