

1 [Limited Equity Conversions]

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3 **Ordinance approving a method for Community Land Trusts to convert existing**
4 **residential buildings to limited-equity condominiums.**

5 Note: Additions are *single-underline italics Times New Roman*;
6 deletions are *strikethrough italics Times New Roman*.
7 Board amendment additions are double underlined.
Board amendment deletions are ~~strikethrough normal~~.

8 Be it ordained by the People of the City and County of San Francisco:

9 Section 1. The San Francisco Subdivision Code is hereby amended by adding
10 Article 11, consisting of Sections 1399.1 through 1399.23, to read as follows:

11 **Sec. 1399.1. PURPOSE.**

12 *This Article 11 is enacted to establish a method for subdividing parcels containing 7 or*
13 *more existing residential units. The conversions allowable under this Article 11 are intended to:*

14 *(a) promote the expansion of home ownership opportunities for existing tenants by*
15 *making conversions possible at a level they can afford;*

16 *(b) balance the interests of home ownership with the need to protect existing tenants*
17 *from displacement;*

18 *(c) increase the availability of affordable home ownership opportunities citywide;*

19 *(d) target affordability levels that reflect the needs and income distribution of the*
20 *City's residents; and*

21 *(e) improve the physical condition of the converted housing stock without fueling*
22 *neighborhood gentrification.*

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2 **Sec. 1399.2. MODIFICATION TO EXISTING CODE**

3 This Article modifies applicable provisions of the San Francisco Subdivision Code
4 ("Code") for all conversion applications submitted under Section 1399.17. Article 9 of the Code
5 does not apply to conversions under this Article except as expressly noted herein. The provisions
6 of Sections 1332(a), 1341 and 1385 of the Code do not apply to conversions under this Article.
7 Subdivisions permitted by this Article shall not constitute an increase in the limits of Section
8 1396 for purposes of Section 1385A(2).

9 **Sec. 1399.3. DEFINITIONS**

10 In addition to the definitions in Section 1308, the definitions below shall govern this
11 Article. To the extent that there is a conflict between the definitions below and those in Section
12 1308, the definitions in this Section control.

13 (a) "Appraisal" shall mean an appraisal that:

14 (1) is performed by an MAI certified appraiser with a minimum of 5 years experience
15 in the valuation of residential property;

16 (2) in the case of an initial conversion, shall provide a separate value for each
17 individual residential unit and each independent non-residential component;

18 (3) is conducted by analysis and comparison of comparable properties similarly
19 located, disregarding the effect, if any, of the price restrictions imposed by this Article or by any
20 subsidies, discounts, special financing, or land lease arrangements particular to the subject sale;
21 and

22 (4) considers, to the extent possible, the age and condition of the property as well as
23 any noted damage, deterioration, or deferred maintenance.

24 (b) "Department" shall refer to the Department of Public Works.

25 (c) "Director" shall refer to the Director of the Department of Public Works.

1 (d) "Maximum Allowable Allocation" shall mean the maximum number of unit
2 conversions permitted per year, beginning on June 1st of each year, and shall equal 2000 units
3 per year plus any unused allocation from the previous year, but in no event may exceed 3000
4 units in any consecutive 12 month period.

5 (e) "Subdivider" shall mean, for purposes of this Article, a Community Land Trust
6 organized within the City and County of San Francisco and registered with the Conversion
7 Board as provided in Section 1399.6.

8 (f) "Variables" shall include the following as defined:

9 (1) INT = Annual Mortgage Interest Rate – For purposes of calculating the intended
10 Purchase Price, INT shall be set at no less than 250 basis points above the 11th District Cost of
11 Funds Index (COFI) as published by the Federal Home Loan Bank of San Francisco for the most
12 recent month of publication.

13 (2) TRM = Term of the Mortgage – Shall be presumed to be 30 years, unless special
14 financing is allocated to the project and made available to the buyers which would provide for a
15 longer amortization period.

16 (3) ACF = Amortization Curtail Factor, defined as the principal loan amount that
17 can be fully amortized by a fixed monthly payment of one dollar (\$1.00), at a fixed monthly
18 interest rate INT/12, over a term of TRM*12 months -- Otherwise known as the "Present Value"
19 of said payment stream.

20 (4) HOA = Estimated Monthly Homeowner's Association Dues as determined for
21 each unit by a thorough analysis of the expenses and reserves required to manage and maintain
22 the project, and an equitable distribution of those costs among individual units in accordance
23 with the guidelines established by the California Department of Real Estate.

24 (5) TAX = Property Tax Rate including any special assessments or bonds.
25

1 (6) HEX = Homestead Exemption from property taxes as authorized by the Office of
2 the County Tax Assessor.

3 (7) UTL = Estimated Average Monthly Utilities Expense as published for the current
4 year by the U. S. Department of Housing and Urban Development and adopted by the San
5 Francisco Housing Authority for its Section 8 program, adjusting for the unit size, source of heat
6 (gas or electric), and type of appliances in the unit. Such costs shall include gas, electricity,
7 water, sewer and garbage charges only to the extent that those charges are not included in the
8 monthly HOA dues.

9 (8) LTP = Estimated Monthly Dues charged by the Community Land Trust to its
10 Lessee Members, not to exceed 0.25% of the resident's monthly household income, plus the
11 amount of any land lease payments or other charges paid by buyer to a Community Land Trust,
12 the City or other land owner under the terms of a land lease.

13 (9) SUB = Mortgage payment subsidies available to a buyer for use toward the
14 purchase of a for-sale unit (i.e. Section 8 Ownership Vouchers, or similar subsidies).

15 (10) HHI = Current Annual Household Income of the buyer's household, including the
16 income of all persons over the age of 18 residing within the unit, except that the maximum
17 number of wage earners whose income may be counted in HHI shall be no greater than the
18 number of bedrooms in the subject unit plus one. HHI shall be subject to verification by the
19 Mayor's Office of Housing as provided in Section 1399.16.

20 (11) AMI = Area Median Income for the San Francisco Standard Metropolitan
21 Statistical Area as determined by the U.S. Department of Housing and Urban Development and
22 adjusted according to the determination of that Department for household size pursuant to the
23 Housing and Community Development Act of 1974.

24 (12) DPP = Down Payment Percentage, stated as a percent of the Purchase Price.
25 For purposes of calculating the maximum Purchase Price, DPP is set equal to 10%, however,

1 nothing herein shall prevent a buyer from obtaining a first mortgage that requires a down
2 payment that is less or more than 10%, or from obtaining down payment assistance as noted
3 above.

4 (13) AVP = Appraised Value at time of Purchase.

5 (14) AVS = Appraised Value at time of Sale.

6 (15) PP = Maximum Purchase Price as determined by the formula set forth in Section
7 1399.9, but in no event less than \$1.00, nor more than the appraised value of the unit.

8 (16) RS = Maximum Resale Price as determined by the formula set forth in Section
9 1399.21.

10 (17) IL = Maximum allowable income limit stated as a percentage of AMI. At resale,
11 a prospective buyer must be income certified at or below the designated Income Limit (IL) to be
12 eligible to purchase a unit.

13 **Sec. 1399.4. APPLICATION**

14 This Article shall apply to all applications for initial conversion of residential buildings
15 with 7 units or more, filed on or after the effective date of this ordinance. The Subdivider for an
16 application for initial conversion under this Article must be a Community Land Trust (“CLT”)
17 organized within the City and County of San Francisco and registered with the Conversion
18 Board as provided in Section 1399.6 of this Article. Applications for initial conversion shall be
19 filed with the Department of Public Works in accordance with the provisions of Section 1399.17
20 of this Article.

21 **Sec. 1399.5. LIMITATION ON NUMBER OF CONVERSIONS; LOTTERY**

22 (a) The Department shall not, under this Article, approve applications for
23 conversions of more than the Maximum Allowable Allocation each year, beginning on June 1.
24 The Department shall carry over any unused allocation from year to year.

1 **(b)** Within 90 days from the effective date of this legislation in the year that this
2 Article becomes effective and on the first regular business day in June of each year thereafter,
3 the Director shall hold a lottery and shall select, at random, tickets representing applications
4 filed for buildings seeking initial conversion under this Article until the cumulative number of
5 units selected reaches the Maximum Allowable Allocation.

6 **(1)** In the event that the number of units represented by all pending applications at
7 the time of lottery is less than the Maximum Allowable Allocation for the period, then all
8 applications will be accepted for processing and the Director shall accept new Application
9 Packets after the lottery date on a first-come-first-served basis until the entire Maximum
10 Allowable Allocation has been expended for the year.

11 **(2)** In the event that the lottery is over-subscribed, those buildings not selected by
12 lottery shall be placed on a waiting list and, unless otherwise withdrawn by the Subdivider, shall
13 be given priority for the following year's Maximum Allowable Allocation according to an order
14 established by a random drawing. To the extent there is sufficient allocation, all prior-year
15 applications will be accepted for processing before the annual lottery takes place. If the number
16 of prior-year applications exceeds the Maximum Allowable Allocation, then a lottery will be held
17 first among the prior-year applications. If the number of prior-year applications is less than the
18 Maximum Allowable Allocation any remaining allocation will be distributed by Lottery, if
19 necessary, among the current year's applicants.

20 **Sec. 1399.6. CONVERSION BOARD**

21 **(a)** Formation: A "Conversion Board" shall be duly established and shall consist of
22 5 members appointed by the Board of Supervisors to serve for staggered terms of 4 years each.
23 At a minimum, the Conversion Board shall consist of the following representatives: three
24 persons representing tenants' organizations, and one person who is an experienced licensed real
25 estate broker with a minimum of 5 years job experience in residential brokerage. The broker

1 and two of the tenant representatives shall serve an initial term of 4 years. The remaining seats
2 shall serve initial terms of 2 years. Thereafter all members will serve four year terms. The
3 Board of Supervisors shall designate which tenant representatives serve the longer initial term.

4 (b) Registration of Community Land Trusts: The Conversion Board shall be
5 responsible for registering Community Land Trusts throughout the City. The Conversion Board
6 shall establish requirements for applications for registration as a Community Land Trust
7 including, but not limited to, the submission of the by-laws of the organization. The Conversion
8 Board shall review the application and register an organization as a Community Land Trust
9 ("CLT") eligible to convert units under this Article 11 if the Conversion Board finds that the
10 organization:

11 (1) is a non-profit corporation with 501(c)3 tax status with duly enacted bylaws and
12 articles of incorporation;

13 (2) has an open membership policy only restricted by geography, if at all;

14 (3) is a zero-equity membership organization; that is, no-one owns shares in it;

15 (4) provides that its Board of Directors be comprised of three equal, democratically-
16 elected classes representing (i) Lessee Members (those who lease land from the corporation), (ii)
17 General Members (members of the community with an interest in preserving and/or obtaining
18 affordable housing), and (iii) Public Members (community organization representatives, persons
19 with applicable technical expertise, and/or government agency personnel, each with an interest
20 in preserving affordable housing). There shall be at least two Board Members in each category
21 except in cases where the CLT does not yet have any Lessee Members, in which case the Lessee
22 Board positions may be filled by General Members.

23 (5) require that the Lessee and General Board Members be nominated from among
24 the Lessee and General Members, respectively;

1 (6) provide that dues payable to the CLT from its members shall not exceed 0.25% of
2 the member's household income;

3 (7) provide that every lessee of CLT property, including non-purchasing tenants,
4 shall automatically become members of the CLT with full voting rights in the CLT;

5 (8) requires the CLT to retain ownership of the land in perpetuity, and control resale
6 pricing through a land lease agreement with each buyer of a unit;

7 (9) has adequate financial resources and/or technical capacity to fulfill its role as
8 steward, landlord, and property manager of real estate assets, and

9 (10) provides that at least a two-thirds majority of each class of membership (Lessee
10 and General) and each class of Board Member (Lessee, General, and Public) be required to
11 approve the sale of CLT land, dissolution of the corporation, and revision to any resale formula.

12 (c) The Conversion Board shall approve the terms of any sale of CLT land converted
13 under this Article and shall insure that the buyer is a registered CLT in good standing in
14 accordance with the requirements of this Section.

15 (d) The CLT shall submit for approval to the Conversion Board a form of land lease
16 agreement that shall specifically include the resale price restrictions provided in Section
17 1399.23 of this Article and shall otherwise conform with all other requirements of this Article.

18 (e) Annual Monitoring:

19 (1) A Community Land Trust that has converted units under this Article shall be
20 required to maintain its registration with the Conversion Board on an annual basis by submitting
21 current copies of its Articles of Incorporation and Bylaws to the Conversion Board.

22 (2) Community Land Trusts that fall out of compliance with the requirements of
23 Section 1399.6.(b) shall, after a 90-day cure period, be subject to the City's right to force a sale
24 of the CLT's assets converted under this Article. In the event of such a sale, the Conversion
25 Board shall give notice of the sale to all registered CLTs. The Conversion Board shall establish

1 regulations governing the procedure for selection of a replacement CLT in the event that more
2 than one replacement CLT bids to purchase the CLT's assets. If no replacement CLTs bid to
3 purchase the CLT's assets, then the City shall have the right to take possession of the assets.

4 (3) The Conversion Board shall prepare an annual report for the Board of
5 Supervisors that describes (i) the type, location, quantity, affordability and number of resales of
6 units in each project converted under this Article, (ii) a list of the CLTs registered to perform
7 conversions under this Article along with the addresses of each converted property under each
8 CLT's management, and (iii) an assessment of any known barriers and issues related to
9 conversions under this Article along with recommendations for legislative changes, if deemed
10 necessary.

11 (f) The Conversion Board shall have the authority to promulgate additional rules
12 governing CLTs and to assess fines and/or other remedies for failure to meet established
13 requirements.

14 **Sec. 1399.7. ADMINISTRATIVE FEES**

15 (a) The Department of Public Works is authorized to collect fees under Section 1315
16 of this Code which shall be applicable to all applications for initial conversion filed under this
17 Article 11.

18 (b) The Department of Public Works shall be additionally authorized to collect fees
19 on behalf of the Mayor's Office of Housing in the amount of \$35 per unit for reviewing the
20 tenants' income documentation and issuing an Income Certificate as provided in Section
21 1399.16 of the Code.

22 (c) Within one year after the date this Article becomes effective, and every three
23 years thereafter, the Director shall review the proceeds of the administrative fee, and the costs of
24 administering and monitoring Article 11 and shall prepare a report to the Board of Supervisors.
25 Based upon the result of the review, the Director shall recommend to the Board of Supervisors

1 any necessary adjustment to the fee structure and any necessary legislation to make the
2 processing of such applications more efficient. In the event that the fee proceeds have exceeded,
3 or are anticipated to exceed, the costs of administering and monitoring Article 11, the Director
4 shall recommend legislation to the Board of Supervisors that modifies the applicable fee to
5 ensure that fee proceeds do not exceed the costs of administration. In the event that fee proceeds
6 have under-collected, or are anticipated to under-collect, the Director may recommend
7 legislation to the Board of Supervisors that modifies the applicable fee to more accurately
8 recover the costs for administration and monitoring.

9 **Sec. 1399.8. TENANT PURCHASE RIGHTS.**

10 (a) Each tenant in a building that is converted subject to this Article has the right to
11 purchase the unit he or she occupies at a price not to exceed an amount determined by the
12 prescribed Purchase Price formula, as further defined in Section 1399.9, provided that:

13 (1) Tenant continues to reside in the unit from the date the Application Packet is filed
14 up to and including the date of close of escrow on the purchase;

15 (2) Prior to the execution of a purchase and sale agreement, the tenant obtains
16 income certification as provided in Section 1399.16.

17 (3) If another tenant residing in the same unit with a purchasing tenant does not
18 jointly purchase the unit, the purchasing tenant may take title to the unit subject to (i) the lifetime
19 lease rights of the non-purchasing tenant, as provided in Section 1399.8A, and (ii) execution by
20 the non-purchasing tenant of a waiver of his or her right to an Option to Purchase as otherwise
21 granted by Section 1399.12 of this Article.

22 (b) A tenant may not assign his or her right to purchase a unit except as follows:

23 (1) A tenant may jointly purchase a unit with another person or persons who reside in
24 the unit with that tenant; and

1 (2) A tenant may add a person to title who is a co-signer on a first or second
2 mortgage secured by the unit.

3 (c) Brokerage, attorney and inspection fees incurred in connection with the purchase
4 of a unit subject to this Article shall be paid by the party who incurred the fee. Any documentary
5 transfer tax, title insurance, and escrow fees and costs shall be paid according to customary
6 practice in the City and County of San Francisco.

7 (d) A purchasing tenant shall not be made to execute a purchase and sale agreement
8 or to make a non-refundable deposit toward the purchase of a unit prior to the issuance of a
9 Conditional or Final Subdivision Public Report for the property by the California Department of
10 Real Estate.

11 (e) Within 30 calendar days following the issuance of the Final Subdivision Public
12 Report by the State Department of Real Estate, the Subdivider shall notify each tenant in writing
13 of the right to purchase the unit in which that tenant resides. The written notice shall be served
14 in person or by certified or registered mail, and shall include the price at which the unit may be
15 purchased and the date on which the offering period expires.

16 (f) To effectuate a purchase, a purchasing tenant must:

17 (1) execute a binding purchase and sale agreement that includes all material terms
18 negotiated between the Subdivider and the tenant, and such other usual and customary terms
19 found in an agreement for the purchase and sale of residential property in the City and County
20 of San Francisco, in accordance with the requirements of the California Department of Real
21 Estate and the Final Subdivision Public Report authorizing the sale of units in the property; and

22 (2) execute and record a deed restriction that includes, at a minimum, (i) restrictions
23 on resale price consistent with the provisions of Section 1399.22 of this Article 11, (ii) first right-
24 of-refusal for the Subdivider to repurchase the unit, and (iii) such other covenants and
25 conditions conducive to maintaining the property in good, clean and habitable condition.

1 (3) execute a land lease with the Subdivider that includes, at a minimum (i)
2 restrictions on resale price consistent with the provisions of Section 1399.22 of this Article 11,
3 (ii) first right-of-refusal for the Subdivider to repurchase the unit, and (iii) such other covenants
4 and conditions conducive to maintaining the property in good, clean and habitable condition.

5 (g) Nothing herein shall prevent a seller from selling a unit at a price below the
6 amount determined by the Purchase Price formula. In no event shall the Purchase Price for a
7 unit exceed its fair market value as determined by an Appraisal as defined herein.

8 **Sec. 1399.8A TENANT LIFETIME LEASE RIGHTS**

9 (a) A lifetime lease arises as to each tenant who has not exercised his or her right to
10 purchase under Section 1399.8 on the date that the subdivision map for the property is recorded.
11 In consideration of the benefit of this Article 11 to the subdivider and future unit owners from
12 permitting the conversion of buildings of 7 units or more, the Subdivider and all subsequent
13 owners agrees to waive any right to any rent increase other than as provided in this subsection
14 that may be permitted under the Costa Hawkins Rental Housing Act, Civil Code Sections
15 1954.50 et seq. or by any other provision of law, and to waive any claim against the City of a
16 physical taking under the California or United States Constitution based on the lifetime lease
17 provision. These waivers will be binding on any heirs, successors in interest, or assigns.

18 (b) The initial rent payable under the lifetime lease shall not exceed the rent charged on
19 the date the Application Packet is submitted, plus any increases permitted under the Rent
20 Ordinance since that date. The lease shall provide that rent increases shall be subject solely to
21 the provisions of the Rent Ordinance, including the approval of the Rent Board for any increase
22 requiring such approval, and that any dispute between the landlord and the lifetime lease tenant
23 concerning the rent shall be determined by the Rent Board. In the event the Rent Ordinance is
24 no longer in effect, then rent may be increased not more than once a year in an amount equal to
25 the percent increase in the U.S. Bureau of Labor Statistics Consumer Price Index-All Urban

1 Consumers-San Francisco-Oakland-San Jose, CA, or any succeeding index, from the date of the
2 last rent increase.

3 (c) The lifetime lease shall contain a provision allowing the tenant to terminate the
4 lease and vacate the unit upon thirty days written notice to the landlord.

5 (d) The lifetime lease shall terminate on the death of the tenant or the date on which
6 the tenant ceases to actually and continuously reside in the unit as his or her principal residence,
7 whichever occurs first. The landlord may terminate the lease during its term only for a Permitted
8 Eviction.

9 (e) There shall be no decrease in maintenance of the unit occupied by a tenant under
10 a lifetime lease.

11 (f) If, on the date the Application Packet is submitted, the tenant jointly occupies the
12 unit with a person who is not a tenant but who is a related party then, at the request of the
13 tenant, the related party shall become a tenant under the lifetime lease. A "related party" is an
14 adult who is a grandparent, grandchild, parent, child, brother, sister, or spouse of the tenant, or
15 person registered as a Domestic Partner of the tenant pursuant to San Francisco Administrative
16 Code 62.1-62.8.

17 (g) A tenant's rights under a lifetime lease are not transferable, and any attempted
18 transfer shall be of no force or effect. The foregoing does not prevent a tenant with a lifetime
19 lease from allowing other persons to occupy the unit with him or her to the same extent as
20 allowed under the existing agreement between the landlord and the tenant, provided that (i) the
21 lifetime lease tenant continues to actually reside in the unit as his or her principal residence, and
22 (ii) no other person residing in the unit who is not a party to the lifetime lease shall have the
23 rights of a lifetime lease tenant. A tenant must provide the landlord with the name of each
24 person who occupies the unit with the tenant as well as emergency contact information for that
25

1 person in writing. The tenant must also give any other occupant of the unit a written notice that
2 the occupant is not a tenant and has no rights under the lifetime lease.

3 (h) The owner of a unit subject to a lifetime lease or his or her successor in interest
4 may require a lifetime lease tenant to enter into a written agreement documenting the tenant's
5 lifetime lease rights. The lifetime lease shall include the terms set forth in this Section and shall
6 also include the terms of the existing written rental agreement between the landlord and the
7 tenant to the extent those terms do not conflict with this Section. If there is no existing written
8 rental agreement, the written agreement shall include the usual and customary terms of
9 residential rental agreements in the City and County of San Francisco that do not conflict with
10 the terms of this Section. Where the tenant has the right to use certain common areas of the
11 property, as, for example, parking or storage, or the right to have pets, those rights shall be
12 included in the written agreement. Any controversy between the landlord and the tenant over the
13 terms of the written agreement shall be decided by the Rent Board. If either a landlord or a
14 tenant refuses to execute a written agreement after a decision by the Rent Board, the decision of
15 the Rent Board shall serve as the agreement.

16 (i) A Notice of Right to Lifetime Lease shall be in the following form, printed in 12
17 point type or larger:

18 NOTICE OF RIGHT TO LIFETIME LEASE

19 TO: (name of tenant)

20 RE: (address of unit)

21 This Notice of Right to Lifetime Lease is given to you as required by Section 1399.5 of the San
22 Francisco Subdivision Code. If the property in which you live becomes condominiums and you
23 do not purchase your unit, you will have a lifetime lease.

24 A. The lifetime lease will start on the date that the subdivision map for the condominium is
25 recorded with the San Francisco Recorder. In consideration of the benefit of this Article 11 to
the subdivider and future unit owners from permitting the conversion of buildings of 7 units or
more, the subdivider and all subsequent owners shall agree to waive any right to any rent
increase other than as provided in Article 11 that may be permitted under the Costa Hawkins

1 Rental Housing Act, Civil Code Sections 1954.50 et seq. or by any other provision of law, and to
2 waive any claim against the City of a physical taking under the California or United States
3 Constitution based on the lifetime lease provision. The waivers will be binding on any heirs,
4 successors in interest, or assigns.

5 B. The following terms will be incorporated into your lifetime lease.

6 1. The initial rent payable under the lifetime lease shall not exceed the rent charged on the date
7 the Application Packet is submitted, plus any increases permitted under the Rent Ordinance
8 since that date. The lease shall provide that rent increases shall be subject solely to the
9 provisions of the Rent Ordinance, including the approval of the Rent Board for any increase
10 requiring such approval, and that any dispute between the landlord and the lifetime lease tenant
11 concerning the rent shall be determined by the Rent Board. In the event the Rent Ordinance is
12 no longer in effect, then rent may be increased not more than once a year in an amount equal to
13 the percent increase in the U.S. Bureau of Labor Statistics Consumer Price Index-All Urban
14 Consumers-San Francisco-Oakland-San Jose, CA, or any succeeding index, from the date of the
15 last rent increase.

16 2. You have a right to terminate your lifetime lease at any time on thirty days prior written
17 notice to your landlord.

18 3. The lifetime lease automatically terminates only on the death of the last person named as a
19 tenant in the lease or when you no longer actually and continuously reside in the unit as your
20 principal place of residence. 4. Your landlord may terminate the lifetime lease during its term
21 only if:

22 a. you fail to pay the rent to which the landlord is lawfully entitled under the oral or written
23 agreement between you and the landlord or you habitually pay the rent late or give checks which
24 are frequently returned because there are insufficient funds in the checking account;

25 b. you have violated a lawful obligation or covenant of tenancy other than the obligation to
surrender possession upon proper notice and you have failed to cure the violation after having
received written notice of it from the landlord; provided that notwithstanding any lease provision
to the contrary, your landlord shall not endeavor to recover possession of your unit as a result of
your subletting the unit if your landlord has unreasonably withheld the right to sublet following
a written request from you, so long as you continue to reside in the rental unit and the sublet
constitutes a one-for-one replacement of the departing tenant(s) as set forth in Rent Board
Regulations 6.15A(d) and 6.15B(b).

c. you are committing or permitting to exist a nuisance in or are causing substantial damage to
the rental unit, or you are creating a substantial interference with the comfort, safety or
enjoyment of the landlord or tenants in the building;

d. you are using or permitting the unit to be used for any illegal purpose;

e. you have, after written notice to cease, refused the landlord access to the unit as required by
state or local law;

1 5. If, on the date the application for condominium conversion is submitted to the San Francisco
2 Department of Public Works, one of the following persons lives with you at the unit and is an
3 adult, at your request the landlord must name that person as a tenant on the lifetime lease, even
4 if the landlord has not previously accepted that person as a tenant: your grandparent,
5 grandchild, parent, child, brother, sister, spouse, or domestic partner.

6 6. You may not assign or transfer the lifetime lease. However, you may allow other persons to
7 occupy the unit with you to the same extent as allowed under the existing agreement between you
8 and your landlord so long as you actually and continually reside in the unit as your principal
9 place of residence and you give the landlord the name of each person who resides in the unit
10 with you and emergency contact information for that person. You must give any person who
11 resides in the unit with you notice that he or she is not a tenant and has no rights under the
12 lifetime lease.

13 7. At your landlord's request, you must enter into a written lease with your landlord that
14 includes those terms of your existing rental agreement that do not conflict with your rights under
15 the lifetime lease. If you do not have a written rental agreement, the written lifetime lease will
16 contain provisions usually and customarily found in a residential rental agreement in San
17 Francisco that do not conflict with your rights under the lifetime lease. If you and the landlord
18 are unable to agree on the terms of the written agreement, the terms will be decided by the San
19 Francisco Residential Rent Stabilization and Arbitration Board ("Rent Board"). If either you or
20 the landlord refuse to sign a written agreement on the terms decided by the Rent Board, the
21 decision of the Rent Board will serve as the agreement.

22 Date: _____

23 _____
24 Signature of Subdivider

25 **Sec. 1399.9 FORMULA FOR DETERMINING INITIAL PURCHASE PRICE**

(a) The initial Purchase Price for each unit subject to conversion under this Article
shall be determined by formula as specified in this Section, such that the Purchase Price is
deemed affordable to the current tenant or tenants residing within the unit.

(b) The Variables used in determining the maximum Purchase Price at initial
conversion shall be set as of the date of the Subdivider's Notice of Intent to Convert.

(c) The composite formula for determining the maximum Purchase Price at the time
of initial conversion is:

1 $PP = ACF(INT/12, TRM*12)*(HHI*35\%/12 + SUB-HOA - UTL-LTP-TAX*(PP-HEX)/12)/(1-$
2 $DPP)$

3 (d) The Subdivider shall receive approval of its Purchase Price formula from the
4 Mayor's Office of Housing prior to issuing the Subdivider's Notice of Intent to Convert.

5 (e) Once the values of the variables are established, the composite formula can be
6 reduced to a simplified "Reduced Formula" in the following form:

7 $PP = (Constant A)*HHI - (Constant B)$

8 **Sec. 1399.10. SUBDIVIDER'S NOTICE OF INTENT TO CONVERT**

9 (a) Prior to submitting an Application Packet, the Subdivider shall provide written
10 Notice of Intent to Convert ("Conversion Notice") to each of the tenants in the building outlining
11 the tenant's rights under this Code, and the method by which the Purchase Price for their unit
12 shall be calculated.

13 (b) The Conversion Notice shall indicate the estimated values for the following
14 Variables: Interest Rate (INT), Loan Term (TRM), Amortization Curtail Factor (ACF), Down
15 Payment Percentage (DPP), estimated Home Owner's Association Dues (HOA), estimated
16 Utility Expenses (UTL), Property Tax Rate (TAX), Homestead Exemption (HEX), & Community
17 Land Trust Payments (LTP), all as defined in Section 1399.3. The Conversion Notice shall also
18 show the corresponding Reduced Formula based upon the values of the Variables stated above.

19 (c) The Conversion Notice shall indicate that assistance in determining the Reduced
20 Formula can be obtained by contacting the Mayor's Office of Housing and shall give the
21 appropriate contact information.

22 (d) The Subdivider shall attach to the Conversion Notice an "Intent to Purchase"
23 form and a Notice of Right to Lifetime Lease form, both to be executed by the tenant or tenants
24 who intend to purchase. The Intent to Purchase form shall be in the form provided in Section
25

1 1399.15. The Notice of Right to Lifetime Lease shall be in the form provided in Section
2 1399.8A(i).

3 (e) In the event that the Subdivider has not been able to obtain a majority “opt-in”
4 response along with the required income Certifications after providing proper notice, the
5 Subdivider may extend the compliance deadlines by sending an extension notice (“Extension
6 Notice”) to all of the tenants. Once the Applicant obtains qualified “opt-in” responses from a
7 majority of the tenants, and the Conversion Notice deadline (or, if applicable, Extension Notice
8 deadline) passes, then the completed Application Packet may be submitted to the Department of
9 Public Works.

10 **Sec. 1399.11. TENANT OPT-IN**

11 (a) Within 30-days of the date of the Conversion Notice, a tenant or tenants who wish
12 to purchase their unit shall “opt-in” by providing to the Subdivider a completed, signed and
13 notarized “Intent to Purchase” form.

14 (b) Within 60-days of the Conversion Notice, tenants who wish to maintain their
15 “opt-in” status (and those “opt-out” tenants who wish to comply with the requirements for
16 establishing an Option Price, as provided in Section 1399.12(a), below), shall obtain an
17 “Income Certificate” from the Mayor’s Office of Housing verifying their qualified income level,
18 as provided in Section 1399.16.

19 (c) Prior to entering into a Purchase and Sale Agreement for a converted unit subject
20 to this Article, a prospective buyer must provide proof of a valid Income Certificate to the seller.

21 (d) Any tenant who has not provided both a signed and notarized “Intent to
22 Purchase” and the required Income Certificate within the Conversion Notice period, as
23 extended, shall not be counted among the “opt-in” units. A majority of the units in the building
24 must be recognized as “opt-in” units before an Application Packet will be accepted as complete.

1 (e) Any unit which is not considered an “opt-in” unit at the time the Application
2 Packet is filed shall be considered an “opt-out” unit and shall be subject to the requirements in
3 Section 1399.12, below.

4 **Sec. 1399.12. TENANT OPT-OUT; OPTION TO PURCHASE**

5 (a) In the event that a tenant is unwilling or unable to consummate a purchase of
6 their unit at the time of conversion, or has otherwise been deemed an “opt-out” tenant as
7 provided in Section 1399.11.(d), above, Subdivider will provide that tenant with an Option to
8 Purchase which, when executed by the tenant, will remain valid for as long as the tenant resides
9 in that unit.

10 (b) Where the tenant has fully complied with the requirements for verifying their
11 household income by obtaining an Income Certificate from the Mayor’s Office of Housing within
12 the timeframes prescribed in Section 1399.11.

13 (c) The Option Price (OP) at which the tenant may purchase the unit shall be the
14 greater of:

15 (1) the initial Purchase Price (PP), as defined in Section 1399.9, adjusted annually in
16 proportion to the change in AMI from the date the Application Packet is filed to the date of
17 purchase, or

18 (2) the initial Purchase Price calculated using the tenant’s certified household
19 income (HHI) as of the date of purchase.

20 (d) Where the tenant has not obtained an Income Certificate within the timeframe
21 prescribed in Section 1399.11.(b), the Option Price (OP) at which the tenant may purchase the
22 unit shall be the greater of:

23 (1) the initial Purchase Price, as defined in Section 1399.9, calculated with
24 household income (HHI) set equal to 40 times the last monthly rent; or
25

1 (2) the initial Purchase Price calculated using the tenant's certified household
2 income (HHI) as of the date of purchase. The tenant will be required to obtain an Income
3 Certificate from the Mayor's Office of Housing prior to entering into a purchase and sale
4 agreement for the unit.

5 **Sec. 1399.13. SALE OF VACANT UNITS**

6 (a) If a unit in an existing building is unoccupied or voluntarily vacated prior to the
7 date an Application Packet is filed, then the initial Purchase Price (PP) at which the unit will be
8 made available to a new buyer shall be calculated with household income (HHI) set equal to
9 AMI. The intent of this provision is for such vacant units to be made affordable to households
10 earning no more than 100% of area median income. Prospective buyers for these units must be
11 income certified at or below an Income Limit (IL) equal to 100% of AMI.

12 (b) If a unit is vacated by a tenant at any time on or after the date of filing an
13 Application Packet without first having exercised his or her right to purchase said unit, then the
14 initial Purchase Price (PP) at which the unit will be made available to a new buyer shall be
15 calculated with household income (HHI) set equal to 40 times the last monthly rent for said unit,
16 adjusted annually by the percentage change in AMI. The intent of this provision is for such
17 vacant units to be sold at the same level of affordability provided to the previous tenant as a
18 rental. Prospective buyers must be income certified at or below the calculated Income Limit
19 (IL), as determined by the following formula:

20 $IL = \text{Monthly Rent} * 40 / AMI$

21 (c) Existing tenants living in overcrowded conditions within a building subject to
22 conversion under this Article, shall be given the right of first refusal to purchase any vacant
23 units at the time of initial conversion. In the event that there are multiple tenants competing for
24 a vacant unit, the Subdivider shall conduct a lottery among the interested and eligible
25

1 candidates. For purposes of this Section, "overcrowded conditions" shall be defined as existing
2 households containing more than two persons per bedroom.

3 **Sec. 1399.15 INTENT TO PURCHASE FORM**

4 (a) An "Intent to Purchase" form required to establish majority tenant participation for a
5 conversion under this Article shall be in the following form, in 12 point type or larger:

6 Intent to Purchase

7 The undersigned states that:

8 1. I reside at _____, Unit _____ and I have received a Conversion
9 Notice dated _____ from _____. By signing below, I indicate my
10 intent to purchase this unit upon its authorized conversion from a rental unit to a
11 (condominium/cooperative) in accordance with the Purchase Price formula stated on the
12 Conversion Notice.

13 2. I represent and warrant that the above referenced address is my primary place of residence.

14 3. I represent and warrant that the following are the names of all adults over the age of 18 that
15 are presently residing in my unit, whether or not they have signed this Intent to Purchase:

16 _____
17 _____
18 _____

19 4. I understand that any adult person who lives in my unit with me, who does not purchase the
20 unit with me has a right to remain in the unit under a lifetime lease once I become the owner
21 of the unit.

22 5. I understand that I have 20 days from the date of this Intent to Purchase to provide sufficient
23 income documentation to the Mayor's Office of Housing in order to obtain a Certificate of
24 Income Verification. The Mayor's Office of Housing will have 7 days to provide me with a
25 Certificate after receipt of all required documentation. If I do not provide a copy of the
Income Certificate to the Subdivider within 60 days of the date of the Conversion Notice, this
Intent to Purchase will be deemed withdrawn and the price of my unit may increase if I
decide to comply with these requirements at a later date.

6. I understand that if I purchase my unit, it will be subject to resale price restrictions to keep it
affordable to future buyers.

1 7. I understand that signing this Intent to Purchase does not create a contractual obligation to
2 purchase my unit. However, as of this date, it is my intention to purchase my unit when it is
3 authorized for conversion and made available for sale.

4 8. I understand that this Intent to Purchase will be filed with the City and County of San
5 Francisco in order to establish that the building qualifies for conversion, and that my signed
6 Intent to Purchase is irrevocable for establishing that purpose unless my signature was
7 obtained by fraud or duress.

8 9. I have been advised that I have a right to seek legal counsel or other professional assistance
9 in connection with my rights to purchase and have either obtained such assistance or have
10 waived my right to do so.

11 I/We declare, under penalty of perjury, that the foregoing statements are true and correct.

12 Signature: _____ Print Name: _____ Date: _____

13 Signature: _____ Print Name: _____ Date: _____

14 Signature: _____ Print Name: _____ Date: _____

15 Signature: _____ Print Name: _____ Date: _____

16 [Completed Notary Acknowledgement for each person must be attached]

17 **Sec. 1399.16. INCOME CERTIFICATION**

18 (a) Each prospective buyer of a unit subject to this Article 11 must register with the
19 Mayor's Office of Housing and provide sufficient documentation of income to determine
20 eligibility and pricing for the unit they intend to buy.

21 (b) Each prospective buyer shall submit to the Mayor's Office of Housing: (i) current
22 pay stubs covering the most recent 2 month period, (ii) signed tax returns for the most recently
23 filed three years, (iii) names, addresses and phone numbers of current employer or employers,
24 (iv) a signed affidavit to verify wages with the employer, and (v) where any sub-tenancies exist
25 or where other non-purchasing occupants reside with buyer, receipts for rental income paid by
all non-purchasing occupants living in the buyer's unit over the past six months.

1 (c) The Mayor's Office of Housing shall verify the income information provided and
2 shall issue a Certificate of Income Verification ("Income Certificate") which shall indicate the
3 buyer's qualified income level as a percentage of AMI adjusted for their household size.

4 (1) If two or more persons are purchasing a unit together, the Mayor's Office of
5 Housing shall consider the combined income (including rental income from non-purchasing
6 tenants) of all persons who will be on title and residing in the unit in issuing an Income
7 Certificate.

8 (2) If one or more persons residing in the same unit with a buyer are not jointly
9 buying the unit with buyer, the Income Certificate issued by the Mayor's Office of Housing shall
10 include the amount of any rent paid by non-purchasing occupants as income to the buyer,
11 whether or not said rent is paid directly to the landlord or to buyer under the terms of a
12 sublease, subject to the limitations of Section 1399.3.(e)(10). Income Certificates shall be valid
13 for 12 months from the date of issuance.

14 (3) If the buyer's documented current income as evidenced by pay stubs is less than
15 that shown on any of the preceding 3 years tax returns, then the highest income from the tax
16 returns shall be used unless the buyer can show reasonable evidence that their income has been
17 substantially impaired by a permanent disability, a career change, or permanent retirement (if
18 age 62 or older). Temporary reductions in income due to unemployment, educational pursuits,
19 unpaid vacation, leave of absence, etc., shall not be considered in establishing the buyer's
20 income for certification. In the event that a buyer has shown reasonable evidence of permanent
21 income impairment then the Mayor's Office of Housing may certify the buyer at a lower income
22 level, as appropriate.

23 (d) The Mayor's Office of Housing shall provide an Income Certificate to the buyer
24 within 7 days of receipt of the information required by Section 1399.16.(b).

1 (e) Prior to closing on the purchase of a unit subject to this Article, the buyer must
2 provide proof of income qualification to the Title Company by submitting a valid Income
3 Certificate indicating that buyer's household income is at or below the maximum income level
4 established for the unit to be purchased.

5 **Sec. 1399.17. ADDITIONS AND DELETIONS TO THE APPLICATION**
6 **PACKET FOR SUBDIVISIONS UNDER THIS ARTICLE**

7 (a) Application Packets for initial conversions under this Article 11 shall contain the
8 following items in addition to the requirements of Sections 1322, 1323, 1324 and, where
9 applicable, 1333.2 of this Code.

10 (1) Signed and notarized Intent to Purchase forms from tenant households
11 representing not less than a majority of the units in the property to be converted.

12 (2) Income Certificates from each opt-in tenant.

13 (3) Verification that the Subdivider is a registered Community Land Trust in
14 conformance with Section 1399.6.(b) of this Article.

15 (4) Copies of each Notice of Intent to Convert sent to the tenants in the building,
16 showing the Reduced Formula applicable to each unit. Said notice shall contain a description of
17 the rights of tenants as herein provided, including the right to purchase the unit, the right to an
18 option to purchase the unit, and the right of all non-purchasing tenants to a lifetime lease;

19 (5) A declaration from the Subdivider, executed under penalty of perjury, stating that
20 every tenant has been offered the right to execute an Intent to Purchase with respect to his or her
21 unit and all of the information in the Application Packet is true and correct to the best of the
22 Subdivider's knowledge;

23 (6) A report of residential record ("3-R Report"), obtained from the Bureau of
24 Building Inspection;

1 (7) A rental history detailing for each unit the size in square feet, the number of
2 bedrooms, the current or last rental rate, and the names of the current tenant or tenants for each
3 unit, including the names of all occupants 18 years of age or older, to the extent that such
4 information is known or can be made known to the Subdivider;

5 (8) A building inspector's report made by either the Bureau of Building Inspection or
6 a certified engineer or architect acceptable to the Bureau of Building Inspection; with said
7 report to contain any Housing Code violations and incipient or potential deficiencies including
8 electrical, plumbing and boiler and energy conservation requirements. Where a building to be
9 converted is two years old or less, an Income Certificate of Completion issued by the Bureau of
10 Building Inspection may be accepted in lieu of a building inspector's report;

11 (9) A statement of repairs and improvements and the projected cost of same that
12 Subdivider plans to make as a condition of sale of the units. Such costs shall include a detailed
13 breakdown by trade along with a delineation of whether each repair and improvement will be
14 made prior to or subsequent to the conveyance of units;

15 (10) A summary of Subdivider's outreach efforts including all meetings held with
16 tenants and all information provided to them about the project and their own options;

17 (11) A statement of the proposed sales program for any vacant or vacated units,
18 particularly plans to promote affirmative action in housing; this information to be used to assure
19 compliance with the requirements of this Code and SMA;

20 (12) A written description of the proposed program for temporary relocation services,
21 if such relocation is necessary to complete the stated repairs and improvements;

22 (13) A copy of the draft purchase and sale agreement to be used for the project;

23 (14) A copy of all draft management documents submitted to the California State
24 Department of Real Estate, including the Home Owner's Association Budget, the Articles of
25 Incorporation, Bylaws and CC&R's.

1 notify the Subdivider of the items required to make an Application Packet complete, the
2 Application Packet will be deemed filed on the 30th day after it has been submitted.

3 (b) The Director shall approve or conditionally approve an application within 50
4 days after filing unless the Director finds that:

5 (1) the application fails to meet the requirements of Section 1399.17; or

6 (2) the signature on any Intent to Purchase was obtained as the result of fraud or
7 duress; or

8 (3) any of the other statements in the Subdivider's declaration are false; or

9 (4) the application fails to meet any mandatory requirement of the Subdivision Map
10 Act, Government Code Section 66410, et seq. or this Code.

11 (c) If the Director fails to approve, conditionally approve, or disapprove a Tentative
12 Map within 50 days after it has been filed, the Tentative Map is deemed approved.

13 (d) A Tentative Map filed under this Article 11 shall be approved subject to the
14 condition that, concurrently with recording of the Final Map, the Subdivider shall record against
15 the property a Notice of Conditions of Approval, signed and notarized by the City and the
16 Subdivider, that provides that:

17 (1) effective as of the date of recording the Final Map, each unit is subject to the lien
18 of an Option to Purchase, on the terms set forth in Section 1399.12, in favor of each tenant who
19 does not initially purchase his or her unit and who was a tenant on the date the Application
20 Packet was filed and who has actually and continuously resided in the unit as his or her
21 principal residence from the date on which the Application Packet was submitted through the
22 date of recording the Final Map, and

23 (2) each unit is subject to a lien in favor of the Community Land Trust creating a
24 right of first refusal upon the resale of said unit, and notice of such deed restriction shall be
25 provided in accordance with the provisions of Section 1399.22.

1 (e) The recorded Conditions of Approval shall constitute an agreement between the
2 Subdivider and any successors in interest and the City. The City and each tenant shall have the
3 right to specific enforcement of the agreement in addition to any other remedies provided by law.

4 **Sec. 1399.21. RESALE FORMULA**

5 (a) Every unit that is converted under this Article shall be subject to resale
6 restrictions for a period of 99 years from the date of conversion, or the economic life of the
7 building, whichever is less.

8 (b) Prior to the resale of any unit subject to this Article, the seller shall obtain an
9 Appraisal, as provided herein, to determine the appraised value at the time of sale (AVS).

10 (c) The Resale Price of every unit subject to this Article shall not be greater than the
11 sum of the seller's initial Purchase Price plus 25% of the prorated appreciation of the unit as
12 determined by subtracting the appraised value at the time of purchase (AVP) from the appraised
13 value at the time of sale (AVS) and multiplying the difference by the ratio of the initial Purchase
14 Price (PP) divided by the appraised value at the time of purchase (AVP).

15 (d) In addition to the normal and customary charges that the seller is required to pay
16 upon resale, the seller shall additionally pay a fee into the City's Conversion Fund equal to ten
17 percent (10%) of the seller's share of appreciation. In the event that the value of the unit has
18 depreciated in value, no participation fee shall be payable.

19 (e) The maximum Resale Price (RP) is summarized in the following formula:

20
$$RP = PP + [(AVS - AVP) * (PP / AVP) * 25\%]$$

21 **Sec. 1399.22 FINAL MAPS AND PARCEL MAPS; DEED RESTRICTIONS**

22 (a) In addition to complying with the requirements of Article 7 of this Code, a Final
23 Map or Parcel Map filed for a property subject to initial conversion under the provisions of this
24 Article 11 shall comply with the following:

1 (1) The Title Sheet of the Final Map or Parcel Map shall contain deed restrictions
2 that:

3 (i) specify that each unit in the building is subject to sale and resale price
4 restrictions and include the terms and formulas for those restrictions.

5 (ii) identify any vacant units in the project at the time of recordation and specify that
6 those units shall be made affordable to households earning no more than 100% of area median
7 income.

8 (iii) specify that any units in the project that are vacated subsequent to the recordation
9 of the Final Map or Parcel Map may be sold at a price not to exceed the Purchase Price
10 established by the formula in Section 1399.9, where household income is set equal to 40 times
11 the last monthly rent for said unit.

12 **Sec. 1399.23 CONVERSION FUND**

13 (a) Formation: A "Conversion Fund" shall be duly established to provide funds to
14 assist Subdividers in effecting conversions under this Article 11 for the provision of affordable
15 housing.

16 (b) Administration: The Conversion Fund shall be administered by an independent
17 non-profit agency ("Fund Administrator") specializing in the administration of such funds. The
18 Conversion Board shall select and contract with the Fund Administrator and such selection shall
19 be re-evaluated on an annual basis.

20 (c) Source of Funds: Upon resale of any unit converted under this Article, the Seller
21 shall pay from escrow at closing into the Conversion Fund an amount equal to five percent (5%)
22 of the Seller's net gain on the unit sale.

23 (d) Use of Funds: The Conversion Board shall accept and review applications from
24 Subdividers seeking funding for specific conversion projects under this Article and, at its
25 discretion, shall allocate available funds as a subsidy or loan to assist Subdividers in financing a

1 conversions. In evaluating the amount of subsidy/loan to grant to a particular project, the

2 Conversion Board shall be limited by the following eligibility criteria:

3 (1) A minimum of 75% of the units in the project must be priced at or below 80% of

4 AMI;

5 (2) A project may receive a maximum amount of \$1000 per unit for every 1%

6 increment below 80% of AMI of affordability level served up to a maximum amount of \$50,000

7 per eligible unit; and

8 (3) The Subdivider must show a need for the amount of subsidy being considered.

9

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

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By: SUSAN CLEVELAND-KNOWLES
Deputy City Attorney

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