Letters to The Times

Encouraging Housing in L.A.

The Los Angeles area is currently facing a housing crisis, rapidly approaching epidemic proportions.

What America needs immediately is a massive program to build rental units under the free enterprise system to solve the shortage of housing. We are facing in Los Angeles County, as well as, I am sure, in other major cities in America, a rapid conversion from apartment houses that are rented, to condominiums. To solve the shortage of rental units, we need a drastic program started.

The decline in housing construction, particularly in rental housing construction, can be traced in large measure to changes in federal income tax law, which has eliminated the profitability of apartment construction for the developer.

The situation is further aggravated by the rapid influx of hundreds of thousands of undocumented aliens and Indochinese refugees who absorb the few remaining rental units on the market. So that existing residents can be provided a consistent supply of housing, it is important that for every family who moves here, a new unit must be constructed.

In order to draw new investment capital into apartment construction the county is currently considering substantial modifications of zoning and density laws for apartment projects. It is not possible, however for the county to make modifications large enough to encourage new investment without revision of the "reforms" of the 1974 and 1976 Tax Acts Specifically, the following federal tax code modifications are essential:

1—Under the earlier tax codes a developer could deduct the cost of interest and taxes expended during construction In the year in which the taxes or interest was paid. The reforms required that these expenses be amortized and deducted over the life of the building. The impact was merely to increase the total cost of the project for the developer and to require him to seek higher rents from his tenants or to reduce his anticipated investment return. Developers should be permitted to deduct interest and taxes during construction as the expense is incurred.

2—Developers and apartment owners were able to accelerate the rate of depreciation or "double declining" usually meant that an apartment investment would produce excess depreciation applicable to other income the owner might have from other sources. An apartment, therefore, that was not an attractive investment based on its own cash flow could become an attractive investment in light of the developer's total financial picture. For the tenant, the reduced investment reflected itself quickly in a declining supply and commensurate increases in price.

Reintroduction of accelerated depreciation will draw investment capital into the rental market.

3—Prior to the 1974 and 1976 tax reforms, an investor purchasing an existing building could prepay one or more years' interest as part of the purchase price of the building. For the developer or seller this prepaid interest made no significant difference. For the buyer, it permitted a portion of that purchase price to be "soft" dollars or tax deductible. The elimination of the capacity to prepay interest reflected itself in discouraging developers from building new apartments to be sold to non-developer investor-owners.

Large numbers of potential apartment owners were, therefore, discouraged from entering into the market place. Developers who formerly had built apartments for sale to others found themselves without buyers. The impact on the tenant was merely to reduce the supply, and therefore, to force up the price.

Los Angeles County needs 100,000 rentals now, and it is important to note that Los Angeles County will need approximately 600,000 new units over the next 20 years to accommodate normal increases in population. In addition, the county will require approximately 600,000 additional units for the replacement of existing units that will have exceeded their useful life during the same time period. Without a reintroduction of the profit incentive into rental housing, it is not logical to assume that private investors will be inclined to create the needed 1.2 million units prior to the year 2000.

Further, increasing apartment construction and availability becomes anti-inflationary even if the method used is the establishment of new "tax breaks" for a few. A large increase in available rental units drives down the rental price of both new and old apartments and reduces inflationary pressure on the housing market for both rental and purchase properties. As long as housing represents 25% or more of the total cost of living of the average American, any reductions will have major impact on our total rate of inflation.

KENNETH HAHN
Chairman
Board of Supervisors
Los Angeles County

The last paragraph in your editorial (Nov. 15), "Confronting the Condo Surge," correctly sums up the problem: "Lack of affordable housing is one of the top social problems in Southern California. It is time for federal, state, city and county officials to come up with some imaginative, long-term answers instead of hasty, piecemeal solutions."

The point is, unless and until "long-term answers" are found and implemented, all conversions should be immediately stopped. Every month of delay means thousands of rental units removed from a shrinking rental market.

Supervisor Ed Edelman's proposals for Mickey Mouse measures will not stop conversions. They're nothing but disguised bribes and will do nothing to curb the unscrupulous and greedy landlords and speculators who have no concern for the fixed-income elderly and others who have no place to go.

Thousands of us have lived in the West Hollywood area for many years and would be lost without the close proximity of friends, doctors and ease of transportation and shopping. Now that we are in our "golden years" (and living in the Golden State, no less) the traumatic prospect of being unprooted is not very glittering.

The rental situation is acute and calls for bold action. If the supervisors were sensitive to the needs of the people who pay their salaries, they would declare this "a disaster area" and call upon the governor and the President for state and federal aid to implement a crash program for new housing.

If we can afford to spend billions to have a man walk on the moon, why can't we afford millions to provide affordable housing, especially for those of us who have paid our dues?

CARL M. LEVIN
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A thorough reading of today's Times (Nov. 9) has brought some interesting facts to light concerning the condominium conversion issue. In the letters column, correspondence from four out of five writers vehemently underscored a concern with the preservation of property rights in order that the free market mechanism might provide more housing to the people of this city.

One of these writers, Philip Hammel, particularly castigated renters for having enjoyed a responsiblity-free existence as a result of their decision not to buy homes in halcyon days of yore when real estate prices were reasonable, and now having the temerity to cry over spilt milk. Certainly those of us born in the baby boom years deserve this criticism, for indeed the overwhelming majority of us did shirk the responsibilities of home ownership during our teen-age years.

Beyond this, however, two articles in the View section brought some facts to light regarding both the "fair" profits of real estate speculators and the ability of the free market mechanism to provide decent, affordable housing to the average person.

One, which outlined the hypothetical returns to a typical apartment house investor, showed the hypothetical investor of $200,000 in an apartment building seven years ago typically would have made a profit of 1,350% with the sale of his building to a condominium converter. The converter then would typically make a net profit of approximately $850,000 for his part-time work over the course of less than a year. Fair profits indeed!

The second article cites city housing figures as projecting that an individual buying a condominium at the lowest readily available prices in the city would need a yearly income of $53,000 to support the mortgage payments on such a purchase. If this is the available housing that the real estate lobby hopes to promote, one must assume that they mean it to be available only to others who share in their good fortune.

Enough then of cant concerning the rights of property owners. No one would have us repeal the pure food laws, yet it steps on the rights of the stockyard owners. Although the Sherman Antitrust Act stepped on the rights of Standard Oil, no one seems concerned enough to suggest its repeal. These acts and others over the course of this century have done much to curb the excesses of the free market and in doing so have been beneficial to the society's economy and to the freedoms of the average man.

Is it not time to deal with such excesses in our own local economy by extending the protection of the law to the vast majority of renters in this city? Let us not allow the resources of a minority to sway public opinion away from support for a course that is so evidently directed toward the public good.

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