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## Tables are turning on condos as a smart investment

**By Amy Reinink, Published: October 7**

It seemed like the perfect investment.

Judy and Dan O'Shaughnessy were shopping for their first home together when they bought their downtown Silver Spring condominium for \$499,000 in 2006. They planned to live in the two-bedroom condominium for a few years, then trade up to a house.

But when they put it up for sale last year for \$465,000, "we didn't get any interest at all," said Judy O'Shaughnessy, 36, an executive assistant. "Not even a nibble. We thought that by the time our renters moved out, the market would have bounced back a little. As it turned out, it only got worse."

They recently put the condo on the market again, for \$439,000.

The O'Shaughnessys' experience underscores a sea change in the Washington area condo market, once seen as a safe investment for first-time home-buyers looking to get into the real estate market for \$500,000 or less before trading up to a single-family house using equity from the condo sale.

In a report released earlier this month, Delta Associates, an Alexandria-based research and consulting firm, reported that condo sales activity in the Washington area has fallen to its lowest level since 2008.

Sale prices of existing condos decreased 3.9 percent during the 12-month period ending in September,

according to Delta. For new condos, sales were down 3.3 percent. Only 1,475 new condos sold in the 12-month period ending in September, compared with 2,499 new condo sales during the previous 12-month period.

“I see a lot fewer people looking for condos these days,” said Anslie Stokes Milligan, an agent with McEneaney Associates in Washington. “Buyers realize that they’re not going to buy a condo, live in it for three years and make \$40,000 when they sell it. First-time buyers are skipping the one-bedroom condo purchase and are just renting until they’re ready for a single-family home instead.”

Agents and those who study the area’s condo market say there are many reasons for the sluggish pace.

For one, agents say, many first-time home-buyers are having trouble securing low-interest loans, thanks to new Federal Housing Administration regulations that require buildings to meet certain standards before buyers can get a low-interest loan to buy there.

Among the regulations, the FHA requires that half a building’s units be owner-occupied, creating a sort of chicken-and-egg scenario — condo owners can’t sell to buyers who can’t get loans. So condo owners end up renting out their condos, which then makes the building’s rental-to-owner ratio more unlikely to meet FHA’s requirement.

If a building isn’t FHA-approved, private lenders may require buyers to put 20 percent of the sale price down — a difficult financial hurdle for many first-time buyers.

“Most young people don’t have 20 percent down sitting around, so they essentially can’t get a loan unless the building is FHA-approved,” said Dennis Kunselman, an agent with Boyd/Hudson.

James and Miyoshi Thomas said they encountered several condos in non-FHA-approved buildings during their months-long search for a condo in Montgomery County. The couple ended up renting an apartment in Silver Spring. James Thomas, 36, a manager, said condos in FHA-approved buildings were often out of their price range, even without considering loan availability.

He said they also encountered “sellers who may or not be reasonable about their prices.”

“As much as we hear that it’s a buyers’ market, you have sellers who can’t get people to buy their places, and buyers who think sellers want too much for their places,” he said. “It was a soul-sucking experience.”

Persuading condo owners to lower their expectations, and their list prices, leads to some “very, very difficult conversations,” Milligan said.

“It’s tough to sit down with a seller and tell them that while I realize they paid \$400,000, they’re going to need to put it on the market at \$360,000,” Milligan said. “I often tell people they need to decide which is the less painful option: to take a \$50,000 loss today, or to rent it out for a more incremental loss for four years.”

Laura and Brenden Carroll have had many such conversations with their agent about their garden-style one-bedroom condo in Alexandria, which they bought for \$281,000 in 2006 “as our starter home,” Laura Carroll said.

She said they outgrew the condo and moved into a house a couple of years later. They have rented out

the condo at a loss ever since.

“We recently had that conversation again, when our original tenant moved out,” said Laura Carroll, 29, an analyst. “Other homes in our neighborhood are selling for so far below what we paid that as long as we can mitigate our costs by renting, we’ll try to ride it out.”

Foreclosures are continuing to drive down sales prices in some parts of the region, such as Prince George’s County, where condo-resale prices dropped more than 50 percent in the past year.

Still, real-estate agents and others familiar with the condo market say there are small pockets of positive activity. Several neighborhoods have seen the condo market stabilize or pick up over the past year.

That’s the case in downtown Washington, where new condo prices are up 1.6 percent from a year ago, with such neighborhoods as Dupont Circle, Logan Circle, Penn Quarter, Thomas Circle and Mount Vernon doing especially well, according to Delta.

“The age-old mantra, ‘location, location, location,’ holds true,” said Dan Melman, an agent with Long and Foster in Washington. “Places like Dupont never really fell.”

Rebecca Israel, an agent with Long and Foster in Maryland, said that’s certainly the case in Montgomery, where downtown Bethesda’s condo market has remained solid. Downtown Bethesda is the site of the Darcy, one of several new condo buildings expected to add 3,378 units to the marketplace over the next 36 months, according to Delta.

Many agents said luxury condos may appeal to a growing market: trade-down buyers selling their suburban homes and moving into luxury condos.

Monty Hoffman, chief executive of PN Hoffman, which along with Stonebridge Carras is developing the Darcy, said those trade-down buyers represent a large percentage of people interested in the 64-unit luxury building.

“A lot of the consumer interest is among empty-nesters — people whose kids have recently gone to college, and who are looking to downsize from their 8,000-square-foot home in Potomac so they can travel more or meet up with friends more,” Hoffman said. Mel Jenkins and Juan Fedles fit that category, but first they need to sell.

For 21 years, the couple has lived in a house that Jenkins, 55, a safety and environmental manager for Southern Management, built himself in Fort Washington. They bought a one-bedroom condo in nearby National Harbor as an investment for \$364,000 in November 2008, and are now trying to rent it out rather than sell at a loss — their agent suggested putting the place on the market for \$345,000.

But rather than souring them to the condo market, Jenkins said they are eying two-bedroom condos in the same building, hoping to move into one before retirement.

As for the one-bedroom condo, “I still consider it a great buy,” Jenkins said. “It’s just that no one else knows it.”

Reinink is a freelance writer.