



Dan Melman
W.C. & A.N. Miller Realtors – A Long & Foster Co.

Dan.Melman@LongandFoster.com 202.841.8353

D.C. Cooperative Home Report – Third Quarter 2010

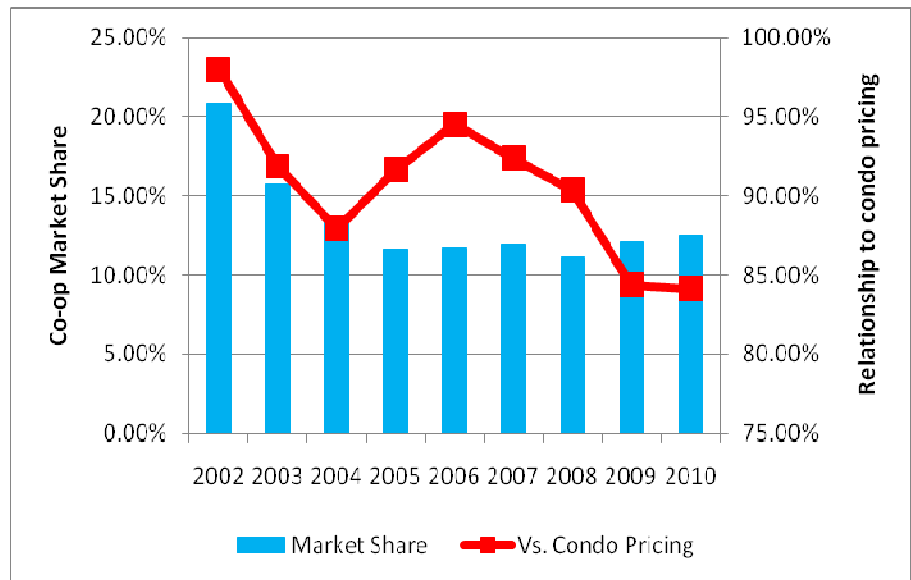
Revised October 2010

Current cooperative owners and individuals purchasing co-op units will find this report useful in understanding how all the talk about booms, bubbles and busts in the real estate market affects them. This report can help assess where the market has been and how this market segment has performed compared with other forms of home ownership. Cooperative home ownership presents a surprising diversity of options for homebuyers and forms an important segment of the District’s real estate market. The District has over 100 cooperative buildings, with prices ranging from starter apartments to multi-million dollar flats. Overlooking this market segment limits a purchaser’s options, and eliminates many treasured buildings in great locations.

This document is a companion piece to my co-op primer which explains co-op ownership to potential purchasers. Not only do I provide these documents at all of my co-op listings, I also stay well versed in events in the co-op marketplace. I regularly list, show and sell co-ops.

Current Market Conditions

Over the last several years, the co-op share of the overall apartment sale market has decreased and now accounts for one in every nine sales. Many new condominium buildings have been built, and as expected, subsequent resales of these and other homes have diminished the proportion of sales that are co-ops. This change not an alarming finding.



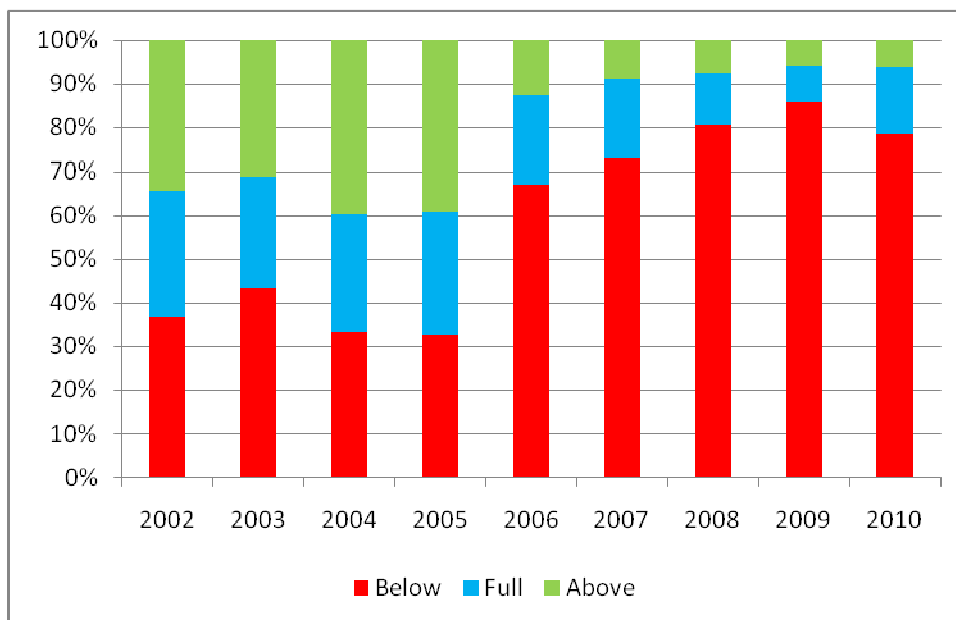
Serving DC, Maryland and Virginia

W.C. & A.N.
MILLER
 REALTORS®
 A Long & Foster® Co.

4434 Connecticut Avenue NW
 Washington, DC 20008
 Main: 202.966.0400
 Dan.Melman@LongandFoster.com
202.841.8353

Exclusive Affiliate of
CHRISTIE'S
 GREAT ESTATES

During the nine year period analyzed, the average sales price for co-ops has risen in step with the overall market, climbing from \$244,000 in 2002 to \$378,000 in the third quarter of 2010. While the typical co-op may sell for only 88.9% of the typical condo, it frequently benefits from location, size and a smaller tax burden.



On average, co-ops now sell for 94.8% of final asking price. As the market cooled, only 21.4% of all properties sold for full price or above, with the remainder running below list price. This one in five figure compares with one in three just four years ago, and an astonishing two in three selling for full price or above in 2005 -- clearly the peak year. That was also the year with the peak price, but given that 2010's average sales price of

\$378,000 is at 95.6% of the peak, co-op owners have weathered the challenging market well. The fact that condo prices have returned to 98.6% of peak is primarily a factor of many newer luxury condos selling and reselling with much higher sales prices.

The average time from listing a co-op to it going under contract is 77.3 days, down eight days from 2009. Of the homes that were sold, 25.6% went to contract in 10 days or less. At any given time, perhaps 250 co-op properties are actively listed for sale, which represent one co-op for every five condominiums.

Foggy Bottom, Dupont, Adams Morgan, Waterfront, and Cathedral are the dominant D.C. cooperative property neighborhoods. Cleveland Park, Kalorama, and Forest Hills also figure prominently. For 2010, the Capitol Towers complex near the Nationals stadium (loosely Capitol Hill) also registers. Co-ops tend to be found in more established neighborhoods as recent construction and conversions are typically established as condominiums or rental properties. The remainder of sales are very scattered around town.

New Cooperatives

The **Chastleton**, long a rental building in Dupont, was converted to cooperative due to a mortgage on the property that could not be rolled into a condominium conversion. As such, each unit was sold with the assumption of a piece of this underlying mortgage. Initial sales were strong, but final close out was a long time coming, particularly given the smaller unit sizes, the lack of parking, and the strong initial sales to tenants.

Interestingly, the city's newest cooperative, the **Capitol Hill Tower** at 1000 New Jersey Avenue SE near the Nationals stadium, followed a similar model as it did not begin as a cooperative. A New York based developer acquired land from HUD for a hotel and apartment complex using HUD incentives, including a loan. When the developer wanted to convert to sales, a condo regime would have required

the developer to prepay the HUD mortgage, which did not allow for prepayment. The New York developer went co-op instead and sold the units with an underlying mortgage. This complex has 344 units. Building amenities include an indoor pool and the option to purchase parking. The developer did not restrict investor purchasers and eliminated the co-op board application process. Final sales have lagged with the weakened market and the building remains only 85% sold.

The **Watergate** hotel in Foggy Bottom was purchased and was to be converted to residential use. This neighborhood, in the shadows of a university, has a long tradition of co-ops that restrict sales to those who could individually afford the units rather than those who could purchase them along with family members. As part of a zoning change application and to appease a very strong neighborhood group, the building was scheduled for conversion to cooperative apartments rather than condos. While this decision affected the marketability of the units, the delays associated with an appeal would have certainly been long and even more costly. Delays nonetheless, and changing market conditions, threw the property into foreclosure and current speculation is that the building will be a hotel again, perhaps with a very few, exclusive number of units for sale on top.

Financing Cooperative Homes

The most significant difference between condos and co-ops traditionally has been financing. Most buyers finance their co-op purchase with a share loan – the co-op counterpart of a mortgage. In the best of circumstances prior to the recent financial challenges at banks, share loans of up to 95% of purchase price were available for well-qualified buyers. Now, however, conventional financing for both condominiums and cooperatives requires higher down payments, typically 15% but in some instances just 10% down. For condominiums and houses however, FHA financing is available which can decrease down payments to as little as 3.5%. This government-insured financing program is not available for cooperatives.

Interest rates for co-op loans are generally in line with condo purchases. Also, both fixed rate and adjustable rate products are available. What remains, however, is that not all lenders participate in the co-op market and that lenders now also focus on how many loans they have in a given project. Lenders must have a recognition agreement with the cooperative to secure the share loan. With more difficult lending parameters, loans for cooperative homes change when the borrowed amount reaches the conforming threshold of \$417,000.

Trends to Watch

The co-op market also includes many fixer-uppers. This can be a great opportunity for purchasers willing to invest in upgrading a unit. Kitchens and baths are most often in need of renovation, and in particular, adding baths. More co-op boards are willing to approve such plans as a means to stay competitive and preserve market value. Units that have been updated will always command a premium.

Many co-ops pride themselves on the number of owners who have been in place for years, if not decades. This trend is certainly changing as buyers with shorter ownership thresholds make co-op purchases. The allure of first-time homebuyer tax credits and a stable resale market has opened the co-op market to purchasers who see owning as a more affordable alternative to renting, and do not make the distinction between condominiums and cooperatives.

Rising real estate taxes have certainly painted co-op fees in a much more favorable light. As co-op taxes are paid centrally, and as part of the co-op fee, the associated taxes have been slower to increase than

condo taxes. Unlike in condominiums, taxes are not reset upon the sale of the property since this 'sale' is solely the transfer of membership or stock.

Finally, the most significant change went into effect on October 1, 2009. Co-ops had been exempt from paying transfer and recordation charges upon purchase and sale. As this typical closing cost adds between 1.1% and 1.45% of the sales price as a closing cost, this has been an important advantage to co-ops. The number of sales does not seem to be effected and 2010 results will closely follow 2009 and be an improvement from 2008.

Challenges in Co-op Sales

Several factors will hold segments of the co-op market back as part of the local real estate market.

Higher investor ratio buildings - Buildings with high investor ratios continue to lag behind the rest of the field. Primarily, this is due to lack of financing, as few lenders will offer share loans for buildings with more investors than occupants. Sellers must then either attract all cash buyers or offer owner financing. Unless the price is substantially less than comparable properties, most purchasers will steer clear of these buildings fearing difficulty in reselling the units themselves. While the 50% threshold used to be the break point, many banks are now using 20% as the maximum investor concentration and requesting updated information from management companies to quantify this risk and protect their position.

Unrenovated - Unrenovated homes also tend to move more slowly. Most purchasers are looking for "move-in ready" condition. As a co-op board has the right to approve or withhold approval for renovation, this is a risk for a purchaser to evaluate in regard to price. Having the resources to renovate following an acquisition also limits the appeal of such homes, particularly with higher down payment requirements.

Central air - Older buildings may lack central air conditioning, viewed by many homebuyers as an absolute requirement. While many buildings are open to new ways to renovate and allow owners to install central air conditioning, some buildings just cannot be retrofitted. Installing air conditioning is a substantial undertaking and its absence reduces the pool of potential purchasers.

Parking - Cars, often an after thought when many of the co-op buildings were originally constructed, are definitely part of today's life. An absence of parking hurts any real estate sale today. Most co-ops with parking rent the spaces to owners, who must climb through a waiting list of people who purchased ahead of them.

Size - While many co-op units are generous in size, particularly compared to newer construction, many older buildings have carved larger units and in some instances even lobby space into small units with small kitchens. These units remain a difficult sell. Following a New York City trend, many unit owners are annexing their neighboring units to make larger homes, but this can mean very high fees.

Location, charm and value combined with availability can mitigate these items.

Marketing Co-ops

A co-op presents more of a challenge to sell than a condo due to preconceptions about the differences in ownership. Agents unfamiliar with co-ops may also bear some responsibility.

By default, the multiple list service inserts the tax figure for the whole building (as there is only one tax parcel), regardless of which unit is for sale, confusing prospective purchasers. The agents should also discuss what is included in the monthly co-op fee – again breaking out taxes, and also outlining utilities that are included centrally. Buyers generally have difficulty with the concept of underlying mortgages and should be presented financing examples of how to evaluate their monthly carrying costs. With the change in the financial climate where co-ops have higher downpayments and now have closing costs closer to condominiums, proper pricing and well defined lender relationships (and again financing examples) are necessary to get the hesitant buyer to comfortably move forward.

An experienced agent should be able to quickly resolve these possible objections and move the conversation back to the strengths of the unit, the community and the value in acting now.

Dan Melman at W.C. & A.N. Miller Realtors and Co-op Sales

W.C. & A.N. Miller has a long and distinguished history in the Washington real estate market. Dan Melman is a veteran agent who capitalizes on savvy negotiation and understanding the intricacies of cooperative home sales ownership. His most important sales tools are his intimate knowledge of recent co-op sales and his carefully crafted support materials, including a co-op primer, to help educate potential purchases to the appeal and allure of co-op homes and most importantly how to complete the purchase.

I look forward to helping you with your real estate needs at all price points and with all forms of home ownership. For a confidential analysis of the value of your current home, or to begin identifying your next home, please contact me today at 202-841-8353.

Dan Melman is a veteran agent at W.C. & A.N. Miller Realtors – A Long & Foster Co. and an expert at listing and selling cooperative properties. To reach Dan please call 202-841-8353. His email address is Dan.Melman@LongandFoster.com

© 2010. Dan Melman. This article was prepared internally by Dan Melman and may not be reprinted, transmitted or distributed without the express written consent of the authors. Violation of this copyright will be strictly prosecuted. The D.C. Cooperative Home Report was compiled using both cumulative data and an aggregation of individual sales data available in the Metropolitan Regional Information System. While generally accurate and complete, this data may not include all private sales or errors in data at MRIS, but is believed to be accurate given the large sample sizes. This report is not meant to solicit any other broker's listing. Excerpts and quotes may be used with proper attribution



Dan Melman
W.C. & A.N. Miller Realtors – A Long & Foster Co.

Dan.Melman@LongandFoster.com 202.841.8353

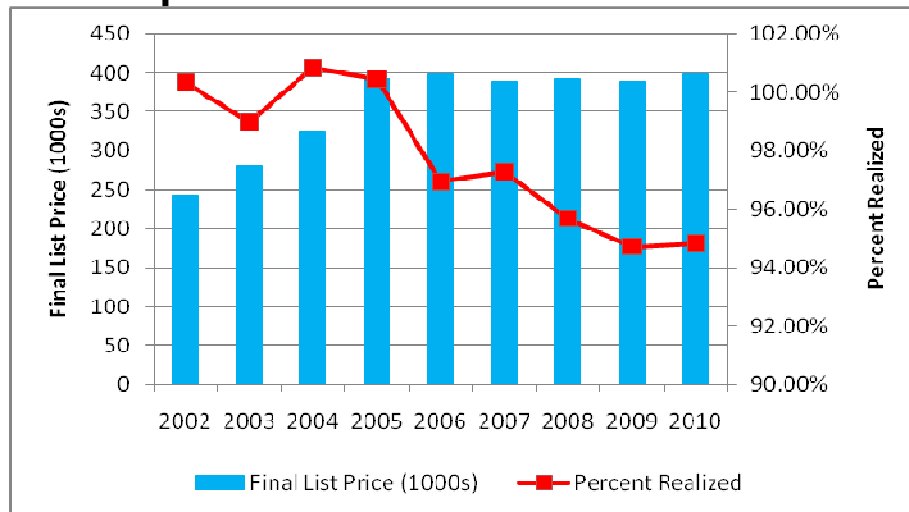
D.C. Cooperative Home Report – Supplemental graphics

DC Cooperative Sales Summary

Year	Number of Deals	Average List Price	Average Sold Price	Total Sales Volume	Days on Market	Ratio of Sold Price to List Price
2002	647	243,195	244,029	157,886,931	38.70	100.34%
2003	576	280,454	277,553	159,870,255	37.24	98.97%
2004	552	323,672	326,426	180,186,957	30.91	100.85%
2005	523	393,327	395,148	206,662,190	28.85	100.46%
2006	449	398,973	386,785	173,666,487	46.39	96.95%
2007	494	388,660	378,069	186,766,010	64.98	97.28%
2008	321	393,323	376,372	120,815,566	69.07	95.69%
2009	366	387,846	367,380	134,461,080	85.59	94.72%
Annualized 2010	349	398,544	377,934	131,898,966	77.30	94.83%

2010 deals annualized based on first nine months of year. 2005 was a banner year, with the highest sold price and lowest average days on the market.

DC Cooperative Sales – List Price and Percent Realized



While the changes in percentage realized might seem dramatic, the scale on this graph begins at 90%. All of these years fared well, particularly with the sustained high prices.