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Rents Rise as Apartment Market Is Squeezed

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The apartment market in the Washington area has become one of the tightest in the country, and rents are rising briskly as some affluent residents decide to rent rather than buy in what they fear is an inflated real estate market.

The surge of well-to-do new renters is attracting developers, and at least 4,000 units that had been planned as condos will instead be leased as rentals over the next two years, according to a new analysis by Delta Associates, an Alexandria real estate information company.

Among the renters is Randell Rogers, 40, a systems engineer who earns \$127,000 a year and recently sold a house. The housing-sale slowdown and sky-high prices have made him wary of buying again, and he is renting a two-bedroom townhouse in Herndon for \$1,400 a month, about half of what he thinks he would pay each month if he bought a similar townhouse for about \$450,000.

"It makes more sense to rent this year while values keep going down," Rogers said. "Even with the tax break, it doesn't make sense for me. It's just not reasonable to buy."

Other affluent families are doing the same. Laura Holliday, 33, and her husband, Jason, 34, both analysts for the federal government, tired of the chores associated with homeownership, the heavy mortgage payments and the hassle of commuting each day to the District from the Mount Vernon area of Alexandria. They sold their house in July 2005 and moved to a townhouse in the Clarendon area of Arlington, where they can commute to work by Metro and have more time to spend with their two young children.

"We probably won't rent forever," Holliday said, "but for now, we are definitely enjoying renting."

As they and others lease instead of buy, rents have risen 7 percent in the past year, according to a new analysis by Delta Associates. In suburban Maryland, rents for luxury high-rise apartments rose 11 percent.

About 6,500 additional renters leased units in the past year, up from about 4,400 in the previous year, according to Delta Associates. The Washington area has one of the lowest apartment vacancy rates in the nation, down to 1.7 from 2.4 percent a year ago, compared with a national average of 5.7 percent.

The rent increases are confounding industry expectations that rents would fall because of the huge number of new condominiums, many of which were sold to investors who have put them up for rent. Experts say prices would rise even faster without the additional condos.

Even so, rents are expected to rise 5 to 9 percent annually over the next few years, said economist Gregory H. Leisch, chief executive of Delta Associates.

More than a half-dozen projects have recently shifted from proposed condo complexes to rental apartments. Delta Associates projects about 2,000 units are being shifted or will remain as rentals this year, with another 2,000 going that route next year.

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"Every large developer I know is working on a project that was expected to be condo -- and that they are now taking back to apartments," said Mark Coletta, regional partner of Fairfield Residential LLC, which is building about a dozen projects in the Washington area. "That's what everyone is doing."

Among the projects that have recently made the switch to rental or will remain rental are a 19-unit building at 1325 N. Pierce St. in Arlington; the 1901 West building in Annapolis, with 282 units; the Park Center complex in Alexandria, with 574 units; the Bristol at Fair Chase in Fair Oaks, with 392 units; and a 415-unit complex in Baileys Crossroads scheduled to break ground in the fall.

The going-rental option is under consideration by the developers of a 183-unit complex at the site of the old National Institute of Dry Cleaning, and a 325-unit project called Cameron House, both in Silver Spring.

Stephen Muller, president of Union Realty Partners Inc., which is building the 183-unit project, said he began considering the shift after a well-heeled family rented a single-family house he owns, saying they did not think it was a wise time to buy. "I think it's frankly smart," he said.

Coletta said he was influenced by the performance of Fairfield's condo projects in Fair Oaks, Herndon and Germantown.

"All are doing fine, but we've clearly see fatigue on the part of the consumer," Coletta said. "Traffic has dropped off, contracts have slowly declined. You see the writing on the wall at the same time apartment fundamentals are improving. It makes the business decision a pretty easy one."

Instead of converting the Virginia Commons complex in Dumfries into condos, its owners have decided to spend "several million dollars" upgrading the place and renting it to people who make \$70,000 to \$90,000 a year -- too much to qualify for housing assistance but too little to be able to afford to buy a home.

"Every owner nowadays goes through the thinking, 'Should I go condo, cash out and call it a day?'" said Kenneth Shiu, manager of Realco Millennium LLC, which owns Virginia Commons. "We started thinking, 'Why not make ourselves nicer and reposition the place?'"

Developers who proceed with condo plans face a flood of competitors. There are some 26,600 condo units being marketed in the Washington region, according to Delta Associates, up from about 23,100 in the same month last year. But there are some 48,000 units moving toward construction in a market where prices, though not falling, have already gone flat.

Leisch said that condo developers increase the base price of units so existing owners and new buyers feel confident they are buying into a rising market, but that then they offer concessions -- better appliances and upgrades, picking up part of the closing cost -- so new buyers think they are getting a good deal.

"It's the old shell game," Leisch said. "You increase the price to reduce the price so after all that nonsense, the price is unchanged. Car dealers do it all the time."

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