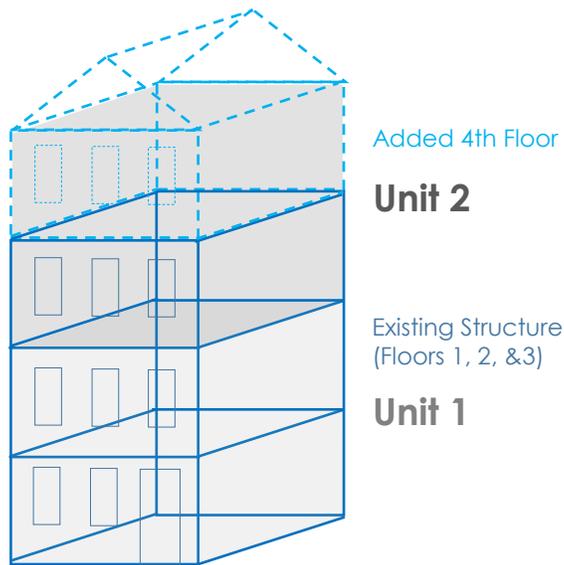




The Ultimate Guide To: **DC CONDO CONVERSIONS**

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So, what is a condo conversion?



Washington, DC is a hotbed for real estate investing and has been for some time. But perhaps the biggest limiting factor of investing in the District is the lack of available land. There's only so much space that you can develop, so what do you do when you run out of space to build out? You build up. Condo conversions provide a solution to the land problem and are notoriously profitable (when done right) for the flippers that complete them. The basic idea behind

a condo conversion is to acquire an existing single-unit property such as a DC row house, and either A) split the existing structure into multiple units or B) add additional floors to the property in order to maximize the number of units the property can sustain. This trend is becoming more and more prevalent in DC, and it's about time someone offered a go-to guide for DC condo conversions.

Why would an investor choose a condo conversion over a traditional flip?

Generally, condo conversions are significantly more construction-intensive than traditional flips, not to mention the necessary zoning and foundation requirements which we will get into later. So why take on the greater risk? Because with greater risk comes greater reward. The profits from condo conversions tend to be much larger than a traditional flip, and therefore a popular strategy with savvy DC rehabbers. Let's break the numbers down in a side-by-side comparison:

Traditional Flip: (1 Unit- 4 Bedroom, 3 Bathroom)

Construction Costs: \$170,000
Transfer and Settlement costs: \$20,000
Agent Commission: \$27,000
ARV (After-Repair Value): \$900,000

Potential Profit: \$83,000

Condo Conversion: (2 Units- each 2 Bedroom, 2 Bathroom)

Construction Costs: \$400,000
Transfer & Settlement costs: \$25,000
Agent Commission: \$39,000
ARV Unit 1: \$550,000
ARV Unit 2: \$750,000

Potential Profit: \$236,000

Now that's a big spread! In this scenario, a condo conversion can give you a return nearly three times higher than a traditional flip. Keep in mind that permitting and construction are much more complicated and time-consuming for condo conversions. So, you have to ask yourself a couple questions before taking on a condo conversion:

- Am I ready and capable of taking on a project of this scope?
- Are my current contractors capable of this type of project?
- Am I ready to commit to a project that can take 12-24 months to complete?

If you answered yes to these questions, then congrats, you may be ready to join the ranks of the condo conversion pros. So, let's dive into the basics of DC condo conversions.

Selecting the right property

Just like a traditional flip, you have to take a look at several factors when considering a DC property with condo conversion potential.

- Does the neighborhood have a demand for multifamily properties?
- Are there quality comps available?
- If you plan to add floors, does the foundation require underpinning? Underpinning refers to the reinforcing of foundation components including footers, walls, and floors. It is a common method used when adding floors to a property.

- Are there zoning restrictions?

RA-1 Zones are subject to regulations placed on the height and lot density (percentage of the lot occupied by the physical property) of a residential apartment building.

800 Series Lots have been designated as a historic district lot (tax number typically beginning in the 800s). If you want to alter or build an addition on one of these properties, the DC Surveyor must assign a new record lot number before you can obtain a permit.

If you run into restrictions like RA-1 Zones and 800 Series Lots, you can typically request a variance for your project, but these requests can take months and usually have a low chance of being granted.



Selecting the right contractor

You may have a fantastic go-to contractor that you use for your single-family flips, but they may not have the experience necessary to complete a project of this scope. You might need to save your go-to crew for single-family properties and go with an experienced condo conversion contractor. Here are some questions you should ask any contractor crew before starting a condo conversion:

- Have you completed a condo conversion before?
- Can your crew commit to the longer timeline of a condo conversion?
- Is your crew large enough to complete the conversion in a reasonable amount of time?
- Is your crew familiar with underpinning a foundation?

In addition to your contractor crew, you may want to hire a permit expeditor. The number of documents and permits required just to get started on your conversion can be daunting, so hiring a professional to handle the paperwork and stay on top of the various DC Offices will save you time and your sanity.



Timing is everything

Condo conversions take much longer than traditional rehabs. Many DC investors are in and out of a single-family flip in around 4-6 months, but condo conversions could take anywhere from 12-24 months between permitting and construction. Be sure to set a very realistic construction timeline so that you can sell during a hot market.

Because condo conversions take more time to complete, it's important to take into account the carrying costs of your investment. If you choose to finance your project through a lender, be sure that you know up front what your carrying cost will be, and how it affects your bottom line. Any reputable lender will provide you with this information so that you can make the right decision on whether a condo conversion is financially feasible.

The DC condo conversion registration process

Step 1A) Exemption or Election

Is the property vacant?

Yes



The property owner files a Request for Vacancy Exemption with the DCRA.



The owner applies for a new Certificate of Occupancy.



No conversion Fee is due.



No



The property owner files a Request for Tenant Election to Convert and delivers notice to tenants (in both English and Spanish). From date of notice, tenants may establish Tenant Organization within 30 days; the election must be conducted within 60 days. If no election is held, the owner may convert the property without further notice to tenants.



A Conversion Fee of 5% of the sales price of each unit will be paid when the deeds are recorded.



The owner submits an Application for Registration with the DCRA.
Fees are due upon filing.

The DC condo conversion registration process

Step 1B) Lot Zoning

Is the property designated as an 800 Series lot by the DC Office of Tax and Revenue?

Yes



The owner files a Request for Subdivision with the DC Office of the Surveyor.



The plat is signed by the property owner and all trustees listed on the Deed of Trust. If the property owner is a corporation, the plat is signed by 2 officers designated by the charter to act for the corporation. The owner also prepays all taxes due through the next tax period.



The request is reviewed by the DC Office of Tax and Revenue, the DCRA Zoning Administrator, and the DC Office of the Surveyor. Upon approval, the Subdivision Plat is recorded.



The owner submits an Application for Registration with the DCRA.
Fees are due upon filing.

No



Proceed to Step 2.

The DC condo conversion registration process

Step 2) Application for Registration

Owner files Application of Registration with DCRA within 180 days of Vacancy Exemption or Election.

The owner obtains a Commitment Letter from their lender/source of capital or Proof of Funds if the owner is using their own capital.

The owner provides a list of all subcontractors and vendors involved in the conversion.

The Owner files the Application for Registration with DCRA. The application is subject to a 60 day review period.

The architect generates a report including a description of the existing building, the planned construction, and expected useful life of building elements.

The architect generates plans and provides the engineer with a copy for the Preliminary Subdivision Plat.

The engineer generates the Preliminary Plat and Plans using **the architect's** plans.

The property manager generates the first year budget, including reserves.

The property manager signs and provides the Management Agreement.

The agent may be required to provide a marketing plan with examples or promotional material.

The agent generates a Comparative Market Analysis and provides recommended pricing.

The DC condo conversion registration process

Step 3) Subdivision is Official

The condo building is now registered.

The property owner obtains the Condominium Book and Subdivision Plat page from the surveyor.



The owner obtains approvals from the DC Office of Tax and Revenue, DCRA Zoning Administrator, and the DC Office of the Surveyor.



The owner records the Subdivision Plat while the DC Office of the Surveyor.



New tax lots are assigned.



The owner records the Declaration and By-laws with the Recorder of Deeds.



No further action is needed.

After registration is complete, the agent can take binding sales contracts.



No further action is needed.

Congratulations! Sales can now close.