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Residential Real Estate

Analysis: The region can relax about housing 'bust'

It may no longer be cool to convert to condos, but residential real estate hasn't exactly slid into a deep freeze in Greater Washington.

Continued job growth and a strong local economy will keep the area's real estate market busy in the near term.

The nation's housing industry has slowed overall in recent months after unprecedented growth from 2003 to 2005, but the market's current correction shouldn't last too long in Greater Washington, says Greg Leisch, CEO of Delta Associates, an Alexandria-based real estate research firm.

"Is there a housing bust? I think not," Leisch says. "It's a return to normal. We don't have two key prerequisites for a bust -- and that's an overproduction of housing and a trauma to the economy."

Joanne S. Lawton

Not Slow: Douglas Firstenberg, left, principal of Stonebridge Carras, and Monty Hoffman, CEO of PN Hoffman, aren't backing down from their new condo project in Bethesda because of the current real estate market.

Condo conversions, which only a year ago were the rage among local developers, have dropped off considerably as condo sales continue to lag. This year, 8,000 to 8,500 condos will likely be sold in the region, down sharply from 13,500 in 2005, according to Delta's projections.

But that's not necessarily a bad thing. With some projects getting canceled or flipped to apartments -- more than 4,000 condo units were removed from the area's three-year pipeline in the third quarter -- the slower growth in supply should bring the condo market back to normal. Homes are staying on the market longer, but they're still selling faster than during other periods in recent history.

Houses were on the market an average of 58 days in Greater Washington through July, up from a low of 29 days in 2004 but still far better than the 10-year average of 78 days, according to Delta's research.

Meanwhile, jobs are still flowing into the region, pushing up demand for homes to rent or purchase.

In August, Greater Washington's labor force increased by 74,000 jobs from the same period a year earlier, behind only Phoenix and New York among major metro areas, according to the U.S. Bureau of Labor Statistics.

That job growth is what Doug Firstenberg is banking on in Bethesda and D.C. He's a principal of Bethesda-based Stonebridge Associates, which has a pair of residential developments under construction in the District and is planning a 250-unit condominium complex with 40,000 square feet of retail in downtown Bethesda.

"Clearly, things have slowed a bit, but the market will always correct itself," Firstenberg says. "By some estimates, this area is going to generate at least 55,000 jobs a year for 2007 and 2008, and that's a conservative estimate. If you look at it from that perspective, we'll continue to have an influx of people who want to live here."

Apartment properties are enjoying a surge in popularity as buyers temporarily shy away from condos. At 491,000 units, Greater Washington's apartment market is the third-largest in the nation behind New York and Los Angeles, but even with all those units the local market had a minuscule 1.4 percent vacancy rate in the third quarter.

The sales volume in September for single-family homes was down in all jurisdictions in Greater Washington, but prices are starting to tick back up in some areas.

After declining in July and August, median prices in D.C. rose more than 8 percent in September, according to data compiled by Metropolitan Regional Information Systems.

"The places where the housing market will have real trouble," says Michael Carliner, chief economist for the National Association of Home Builders, "are those with poor economic conditions, like Detroit, and in areas where there was a high degree of speculative construction, like South Florida. Those aren't issues in D.C., where the fundamentals for the economy and the housing market are still good."