



## **NEW CONDOMINIUMS: WHAT TO KNOW BEFORE YOU CLOSE**

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**Are you buying a recently created or converted condominium  
(the first purchase from the developer)?**

**If so, protect yourself by ensuring the developer is in compliance with  
DC Department of Housing and Community Development's (DHCD's) regulations.**

All newly created or converted condominiums must be registered with DHCD's Rental Conversion and Sale Division (The Rental Housing Conversion and Sale Act of 1980 [the Conversion Act], and the Condominium Act of 1976 [the Condo Act]). Before the first residential unit is conveyed, every developer must post warranty security with DHCD. In addition to this requirement, some developers must pay conversion fees on individual units.

### **What Is Warranty Security?**

In most new condominiums, the developer gives the buyer a limited warranty against structural defects. In addition to that limited warranty, the Condo Act requires developers to provide warranty against structural defects. To secure the statutory warranty against structural defects, the developer must post warranty security the form of a bond, letter of credit (LOC), or cash in the amount of 10 percent of the construction costs expended to develop the property (§42-1903.16 of the Conversion Act):

- warranty security is posted one time for each development;
- developers may choose to post warranty security directly with DHCD or work with title companies to forward the security to DHCD;
- the developer determines which form of security to post (cash, bond, or LOC);
- if your condominium has experienced a structural defect you may make a warranty claim with DHCD; and
- once the statutorily mandated timeframes have expired, the developer works directly with DHCD to release the funds.

### **What Are Conversion Fees?**

Unless expressly exempted by DHCD, newly converted condominium units incur conversion fee liability that is due and payable on each unit at the sale to a third-party purchaser.

- the conversion fee rate is 5 percent of the unit sale price and is due and payable at the time of settlement;
- the settlement agent must collect and remit the conversion fees to DHCD no later than 30 business days after closing and include a copy of the executed recordation tax and transfer tax return.

To determine: (1) whether warranty security has been posted with DHCD; (2) the requisite amount of warranty security that must be posted; and (3) whether a developer is subject to paying conversion fees, please contact DHCD at (202) 442-4407 or [dhcd.casd@dc.gov](mailto:dhcd.casd@dc.gov).

**Citations:** Rental Housing Conversion and Sale Act of 1980 (D.C. Law 3-86, enacted June 27, 1980, codified at D.C. Official Code 2001 ed., as amended, §§42-3401.01 et. seq.); Condominium Act of 1976, codified at D.C. Official Code 2001 ed., as amended §§42-1901.01 et. seq. Conversion and Sale of Rental Housing, title 14, chapter 4700, D.C. Municipal Regulations (DCMR) (2004 ed., as amended, §14-4700 et seq.)