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How to Buy a NYC Apartment

Step 1
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Co-op or Condo?

The first step in the NYC buying process is to decide if you are better fit for a co-op or condo.

NYC apartments come in two flavors: Co-op (short for "cooperative") and condominium.

Older buildings (pre-1980s) tend to be co-ops, while pretty much everything built from the 1980s onward is condo. Beyond that distinction, your personal or financial circumstances, along with your lifestyle preferences and past experience, might guide you toward one or another.

Or, like many people, you may simply decide to look for the best apartment you can afford in a financially sound building, be it co-op or condo.

Here's a quick overview of the key differences and considerations.

Ownership structure

Photo Credit / Barrons

CO-OP: While co-ops are common in NYC, most people in other parts of the country are unfamiliar with their unique ownership structure.

In a co-op, the entire building is owned by a single corporation. Instead of a deed, buyers get shares (stock certificates) in the corporation, and a proprietary lease that allows buyers to occupy a specific unit and lays down the rules and rights much like a lease in a rental building. (In fact, technically speaking, buyers of co-op apartments are referred to as ?tenants? or ?shareholders,? not ?owners.?)

CONDO: Buying a condo is very much like buying a single-family house. You get a deed to the apartment that gives you ownership of the interior of your unit and the surface of its walls, as well as an undivided interest in the building?s common elements. This is the type of ownership almost everyone has in mind when they think about buying a home, and almost all newer buildings are condos.

After you buy your apartment, you will largely find that the legal ownership structure has little impact on your use of it. However there are a number of quirks related to each that will be discussed further below.

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Co-op and condo boards

CO-OP: Shareholders elect a volunteer co-op board that--except in some very small buildings that choose to save money by self-managing--works with a property management company to oversee the care and maintenance of the building.

The board also creates and enforces rules about everything from renovation inside units, to what?s allowed to transpire on the roof deck, to whether you can speak on your cell phone in the lobby, or whether dogs will be allowed in the building. The board can levy fines against rule-breakers and, unlike condo boards, can even evict an extremely disruptive shareholder and force them to sell their apartment.

Overreaching, power-hungry co-op boards are the stuff of legend here, and many of the stories are true. At least as many co-op boards are made up of volunteers with full-time jobs and families who try to make the best of what is a demanding and time-consuming role if done right.

CONDO: Condo owners also elect a board of directors that perform many of the same functions as a co-op board. Generally speaking, though, most condo boards tend to be more hands-off when it comes to rulemaking.

That slightly more laissez-faire approach is partly due to philosophical underpinnings (more on that below) and partly because condo boards wield less enforcement muscle: They can fine owners only for the expense related to any rule infraction (or get an injunction to stop it from happening again). But because a condo owner actually owns his or her unit, a condo board, unlike a co-op board, can?t evict an owner from an apartment.

Note: In both co-op and condos, your voting power increases with the size of your apartment.

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Monthly charges and assessments

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CO-OP: Co-op shareholders pay a monthly maintenance fee. Part of the fee goes toward the expense of operating the building. The other part is the amount of property taxes apportioned to each shareholder based on the number of shares assigned to each apartment. Particularly these days, when property taxes and fuel costs are rising sharply, maintenance fees are frequently adjusted upward each year (3%-7% annual increases are quite common).

In addition, co-op boards can require shareholders to pony up extra cash from time to time to boost the reserve fund or pay for a specific project. In a 40-unit building, for example, an assessment to replace an elevator might run $8,000-$15,000 per unit, depending on how many shares you own. Typically, shareholders can spread their payments out over a period of time such as 6-18 months.

CONDO: The monthly charges in a condo building are referred to as common charges. Property taxes are not included; individual owners are billed directly by the government. This is an importance nuance to keep in mind when comparing carrying costs of co-ops to condos, because at first glance, condos may look cheaper on a monthly basis.

Like co-op boards, condo boards also levy assessments when necessary.

Monthly charges in both co-ops and condos tend to increase with the expansiveness of amenities and staff. However, larger buildings have economies of scale when it comes staffing and operation that are often reflected in lower common charges.

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Approval to buy

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CO-OP: We?ll go into more details about the approvals process below [6], but for now, let?s start with the fact that a co-op board can turn down a buyer for any lawful reason. And because the reason need not be divulged, this means that in practice, unlawful reasons (race, religion, profession, sexual orientation, nationality, etc.) may also prompt a rejection. (Note: If you buy an apartment directly from the sponsor [7], you will not need board approval at all.)

CONDO: For various reasons, most condo buyers these days are subjected to nearly as much financial and personal scrutiny as co-op buyers. But rather than being turned down outright, pretty much the worst that can happen to a condo buyer is that they wither away on the vine while a board engages in deliberate stalling tactics. Stalling is about all an unenthusiastic board can do, except for buying the place outright via the right of ?first refusal??which virtually never happens.

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Minimum downpayment and liquid assets

CO-OP: Most co-ops require buyers to put down 20-25% of the purchase price, about the same as what most lenders require these days. But the range can be vast, depending on the co-op?anywhere from 10% down (very rare) to 50% or more at higher-end buildings.

Co-ops also expect you to have sufficient money left over (also known as ?liquid asset requirements?). The required amount can range drastically, from a few months worth of maintenance payments to 1 to 3 times the purchase price of the apartment. Two years worth of mortgage and maintenance charges is about average.

In addition, each co-op will expect you to meet a debt-to-income ratio, usually around 25%-29%. That means your total monthly payments--mortgage and maintenance--cannot exceed the specified percentage of your gross income. An excellent credit score is also required.

Add them all up, and you will find that the average co-op's financial standards are much higher than the average mortgage bank...a primary reason NYC co-ops withstood the recent recession so well.

CONDO: The typical downpayment required in a condo building is around 10%, depending on the building?s bylaws. Bear in mind, though, that if you?re getting a mortgage, banks these days often require 20%, unless the building qualifies for an FHA loan, which carries a 3.5% downpayment requirement.

Many co-ops and condos these days require buyers to put an additional one to two years of common charges in an escrow account as insurance against nonpayment. The odds of this happening to you increase along with the perceived 'riskiness' of your application, as measured in debt-to-income ratio, U.S. citizenship status, or a variety of other factors.

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Cost

NYC co-ops are cheaper, on average, than condos. In the fourth quarter of 2012, for example, condo buyers forked over an average of $1,301 per square foot in Manhattan, approximately 39% more than co-op buyers, who paid an average of $939 per square foot, according to the appraisal firm Miller Samuel. (The firm's reliable quarterly market reports, available for free online [9], show pricing trends by size and type of apartment as well as by borough.)

Part of the reason co-ops tend to cost less is because they are typically older, lacking the bells and whistles of the tens of thousands of new condos constructed in the past decade. Many newer condos have also secured property tax abatements that enable developers to command higher sales prices than if buyers had to pay full tax bills right away.

Another reason co-ops are cheaper is that buyers usually must be approved by a board. That process involves a mountain of paperwork, a personal interview, the possibility of rejection, and the total (and totally one-sided) opening of your financial kimono to folks you will share the elevator with for years to come.

In addition to higher purchase prices, condos also have substantially higher closing costs if you?re taking out a mortgage: You will pay a mortgage recording tax of 1.8% of the mortgage amount for loans under $500k or 1.925% for loans above that. Also, your lender will require you to buy title insurance, which costs about .5% of the purchase price.

(Note: The New York State legislature is trying to extend the mortgage recording tax to co-op purchases as well.)

If you're buying a new condo (versus a resale), transfer taxes (1.825% of purchase price for properties over $500,000, and 1.425% for properties under $500,000) are also your responsibility, though these can often be a point of negotiation with a developer, who is more apt to cover fees like this than reduce the sales price, which can affect future sales.

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Subletting

Photo Credit / David Lat [11]

CO-OP: Most co-ops have very strict policies about subletting, which does not make them an ideal investment opportunity and can present a serious challenge if your job suddenly relocates to London, for instance. The rules vary, but owners are usually allowed to sublet their apartment for no longer than 1 to 2 years in any 5-7 year period. The board also gets to approve your tenant and charge you a fee for subletting.

CONDO: Condo sublet policies are far more liberal. While there may be rules against short-term sublets (say, less than 6 months), there is usually no outside limit nor do boards have the right to turn down a tenant unless they exercise that right of first refusal and lease your apartment themselves. But just like a co-op, application fees, move-in fees, processing fees, etc., can range from a few hundred to a couple of thousand dollars extra that you or your potential tenant will have to pay. And you will be living in a building with a more transient population than a co-op.

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Lifestyle and other considerations

Photo Credit / Town Real Estate [15]

Now, brace yourself for some sweeping generalizations about lifestyle and other considerations in a co-op vs condo. You will need to do your research to discover which of these statements actually applies to the building you?re considering.

- **Condo owners favor freedom and autonomy.** Among other things, they don?t want to be told whether they can buy an apartment or to whom they can sell it or sublet it to; whether they can have a dog (or what kind, or the maximum it can weigh); whether they may refinance or take out a home equity loan, etc.
- Co-op owners are more **worried about whether the living environment** they think they are buying into **will live up to their expectations**?and they want to protect it.
- For the reasons above, **condos may be noisier** and filled with a high turnover of renters who don?t care about getting along with the neighbors and may have a greater tendency to neglect the building. Co-ops, while often more peaceful and better tended, can be micromanaged, inbred, and change averse.
- Newer condos that sprang up during the recent construction boom and afterward?**the majority of condos for sale today?tend to be located in less convenient or desirable areas**, where land was available. In Manhattan, for instance, Harlem, the Financial District and Midtown West in particular saw a disproportionate share of new development.
- **Newer condos tend to have more desirable amenities** both inside the apartment (washer/dryers, anyone?) and outside (roof decks, playrooms, health-club-quality gyms, etc.) than co-ops and older condos. (That said, many co-ops have started retrofitting some amenities in order to stay competitive...often with mixed results.)
- **It can be difficult, and expensive, to find condos in the most desirable areas** such as Central Park West or the best parts of the West Village. Similarly, if you?re looking for prewar details, these buildings are almost always co-ops--and when you find a rare prewar condo, demand and prices are typically high.

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Tipoffs that you may be the condo type

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In addition to the generalizations above, you may want to focus your search on condos if:

- You have a large or feared breed of dog (basis for being rejected from a co-op even if it allows dogs and does not have a stated size or breed restriction)
- You are looking for a newer building (1980s through present)
- You are buying using a trust or an LLC
- You want to use the apartment as a pied a terre

- You are buying the apartment for your kids
- You have sued a landlord or your last co-op or condo board, or you?re generally litigious (or you are an attorney)
- You?re a musician
- You have a home-based business that involves noise or lots of visitors like teaching music or practicing psychology
- You can?t afford a 20-25% downpayment
- You?re a foreign citizen

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