

BUYING 101

New York is a city comprised mainly of cooperative and condominium apartments with a smaller selection of private homes called townhouses or brownstones. To end up with the right home for you, it is important to understand the differences in property types and the nuances of the purchase process. In this section, Rutenberg has provided you with a more detailed description about the entire buying process.

COOPERATIVES

Cooperatives (Co-ops) are not a new concept for New Yorkers, but many out-of-towners are unfamiliar with this type of ownership. In NYC about 75-80% of apartments available for purchase are in cooperative buildings, while 20-25% are in condominiums or townhouses. This means that there is more inventory to choose from if a buyer includes co-ops in the mix of properties; typically, prices are more favorable for cooperatives because of supply and demand.

Cooperative buildings are owned by an apartment corporation. Individual tenants do not actually “own” their apartments as they would in the case of “real” property. Tenants own “shares” in the corporation which entitles them to a long-term “proprietary lease.” The corporation pays the total amount of the building’s mortgage (a co-op may have an underlying mortgage for their specific apartment on the entire building, whereas a condo must be owned outright), real estate taxes, employee salaries, and other expenses for the upkeep of the building. The tenant-owner, or “shareholder,” pays a share of these expenses as determined by the number of shares the tenant owns in the corporation. Share amounts are usually dictated by apartment size and floor level – space on a higher floor will have more shares associated with it than its counterpart on a lower floor.

Important considerations when buying a co-op:

- The quality of services and the security of the building are kept at high standards.
- Each building has its own tax structure, but all co-ops offer tax advantages. Shareholders can deduct their portion of the building’s real estate taxes, portions of their monthly maintenance expense and the interest on the building’s underlying mortgage.
- Each cooperative determines the amount of money that may be used to finance a purchase. Some buildings require substantial down payments. Generally speaking, in Manhattan, buyers should be prepared to “put down” 20-50% of the purchase price.
- Subleasing a co-op must be approved by the Board of Directors of the co-op. Each corporation has its own rules, and they should be examined if a potential owner intends to sublet.
- Most cooperatives only accept buyers who intend to use the apartment as their primary residence. Co-ops are not for investors.

Don’t be frightened. Co-ops are the norm in New York City, not the exception.

CONDOMINIUMS

Condominiums (Condos) are quite popular and common throughout the rest of the U.S.; however they are a rather new concept in the Big Apple. A condo apartment is real property – buyers get a deed just as though they were buying a house. Since this is real property, there is a separate tax lot for each apartment.

This means that condo owners pay their own real estate taxes for their property. An owner also pays common charges on a monthly basis. Common charges are similar to maintenance in a co-op; however, common charges include neither real estate taxes nor the building's mortgage and interest because, by law, a condo cannot have an underlying mortgage.

Condominiums are attractive for the following reasons:

- Financing the purchase of a condominium apartment is much more flexible than a cooperative apartment. In the past, buyers could finance up to 90% of the purchase price. Since the credit crisis, banks' lending practices have become more stringent. Buyers should consult a mortgage professional for current financing options.
- While there is an application process, it is not as formal as in a cooperative. The likelihood of rejection is significantly less.
- There is greater flexibility in sub-leasing your apartment. This makes condos a better investment choice than co-ops.
- Condominiums are the ideal choice for non-U.S. citizens or for those with assets held outside of the United States because co-ops are unlikely to approve these types of buyers.

Condos are generally more expensive than co-ops for a number of reasons. There are fewer condominiums than cooperatives in New York City, the buying process is easier, and combined monthly common charges and real estate taxes in a condo are typically lower than a co-op's monthly maintenance charges.

STEPS TO FINDING THE PERFECT HOME

1. Seek pre-approval for a mortgage

Typical time frame: same day to two days. You must know how much you can spend before you can spend it. Sellers and their brokers will want to know you are qualified to purchase their apartment before they will begin negotiations.

2. Find an apartment and place an offer

Typical time frame: varies. Some buyers need to see many possible choices before making a decision, while others need only to see a few. When you have found the right property, your agent will convey your offer to either the seller's agent or to the seller directly. Offers are made verbally in New York City.

The seller may "counter" your offer thereby beginning the negotiation process in which both parties agree upon price, terms, and closing date.

3. Negotiate the apartment

Typical time frame: one day to two weeks. This depends on the buyer and seller. Some transactions move quickly and some don't. It's always a good idea, however, to keep momentum going. Remember that there is more to negotiate than price alone. What will the closing date be? Would a longer closing be more attractive or does the seller have the desire to close quickly? What personal items will remain with the apartment? In New York, for instance, all appliances typically remain, but do the window air conditioners? What about the curtains? Ask about everything and remember it is all part of the negotiation.

4. Sign the contract

Typical time frame: two days to three weeks. All property transactions in New York City require a real estate attorney. Your real estate agent can assist you in finding experienced attorneys. Once negotiations are complete, the seller's attorney will begin preparing a contract of sale during which time your attorney will begin his/her due diligence. Your attorney will review the contract, read the co-op or condo's financial statements and by-laws, review the building's offering plan, read the board meeting minutes, etc.

Once your attorney feels comfortable with his/her findings, you will be invited to sign the contract and submit a deposit of 10% of the purchase price. The contract is then forwarded to the seller for signature. The 10% deposit is held in the seller's attorney's escrow account until closing.

There is no reason a contract cannot be signed relatively quickly. Remember to manage your attorney if things aren't moving quickly enough. Until the contract has been delivered and signed by all parties, the seller can still entertain and accept other offers! If you take too much time, you could lose the apartment.

STEPS TO FINDING THE PERFECT HOME

5. Apply for a mortgage

Typical time frame: three to nine weeks. You have already pre-qualified, identified the property and signed a contract. Now is the time to apply for a mortgage. Receiving a Commitment Letter from the lender can take anywhere from three to nine weeks. It is important to use a reputable mortgage broker or banker and, once again, manage the process.

6. The Appraisal

If the Purchaser has applied for a mortgage promptly, you will receive a call from the Appraiser within a few days after the contract has been signed. 1) Schedule an appointment with the Appraiser as soon as possible, 2) while you have him on the phone ask him what he will need from you, 3) assemble comps to give to the Appraiser. You have great control over the appraisal by furnishing comps that present the sale in the best possible light, 4) if there have been sales in the subject building that are much lower, find out why so that you can explain to the appraiser, e.g., the same apartment that just closed for \$50,000 less was an estate sale in horrible condition, and 5) always be friendly and helpful to the Appraiser, for in a touch and go situation, this could be the deciding factor.

7. Complete the board package

Typical time frame: three to nine weeks. Your Rutenberg agent will supply you with the board requirements and application materials. Board packages typically contain: an application, financial statements signed by a CPA and all back-up materials, tax returns, bank statements, letters from bankers, accountants and employers verifying all claims, letters of personal and business reference, the contract of sale, and a bank commitment letter (if you are financing).

When your package is finished, your agent will forward it to the Managing Agent. Once the Managing Agent determines that your application is complete and all credit checks are approved, your package will be forwarded to the Board of Directors. No application will be accepted by a Managing Agent unless it is complete.

While co-op and condo packages look similar, the process is quite different. For co-ops, once your package is submitted, the Board will review your application. If your application meets initial approval, you will be invited to be interviewed by the Board or by an interviewing committee. This can sometimes take time to schedule; some buildings move more quickly than others.

In the case of a condominium, there is generally no formal interview. Your application will be reviewed, and if all required materials are included and in order, an approval is typically granted. The entire process can move quickly in a condominium, and assuming a loan can be secured in a timely fashion, the process can move from contract to closing in about 60 days.

STEPS TO FINDING THE PERFECT HOME

8. The board interview

Typical time frame: 30 minutes to an hour. The board interview is a business meeting and should be treated as such. Each cooperative has its own way of handling new applicants: some co-ops meet on a monthly basis and you must wait until their scheduled meeting; some meet on an as-needed basis; some don't meet at all in August or December because of holidays and vacations; etc. Do everything possible to make yourself available. It will seem to you that all of this is on "their" terms, but, for better or worse, this is how the process works. Try to keep emotions out of the process.

9. Approval from the Board

Typical time frame: one to two days. If you are approved, you should hear within one to two days after your interview. Occasionally it can take longer.

10. Schedule the closing

Typical time frame: one to two weeks. Be flexible! There are many moving pieces to this process and many aspects that are simply beyond your control. Assuming all parties are "ready to go," however, the closing can generally be scheduled for one to two weeks after board approval.

11. Close the deal

Typical time frame: varies. Attend the closing and pick up the keys.

CONGRATULATIONS, YOU ARE A HOMEOWNER!

HOW TO PASS A BOARD INTERVIEW

Being invited to the interview is a good sign. The interview is the Board's opportunity to meet you and ask specific questions about your application. The style of the interview can range from an informal gathering of board members in an apartment to a formal interview with board members lined up at a table with you in the hot seat.

1. Dress up and be prompt

In terms of dress and promptness, a board interview should be treated no differently than a professional job interview.

2. Prepare for a lack of privacy

The Board has great latitude in the kinds of questions it can ask, so be prepared. Do not avoid answering personal questions and do not become angered by them.

3. Know your application

You should be able to quickly and concisely answer any questions asked about your application, preferably without having to look at it. If necessary, bring a copy along.

4. Couples should decide in advance who will answer certain types of questions

For example, you may agree to answer all financial questions while your spouse will answer all other questions. Avoid discussing your answers with your spouse in front of the Board.

5. Do not try to sell yourself

Answer the questions you are asked and let the Board run the show. Boards rarely turn down applicants for being too boring.

6. Never volunteer information

Do not engage in unsolicited conversations except for basic cordial remarks and greetings.

7. Do not ask questions

Questions can often unintentionally convey negative information to the Board. For example: "Do you have any plans to renovate the lobby?" is the kind of seemingly innocent question which may offend the board member who was in charge of the "recent" lobby renovation. If you have any additional questions, direct them to your real estate agent or your attorney.

8. A short interview is better than a long one

While there are no hard and fast rules, a short, cordial interview with few board questions and remarks is often the best co-op board interview.

9. Do not expect an answer at the end of the meeting

Most Boards do not give their decision until a day or two after the meeting. Your real estate agent and attorney will take the necessary steps to determine if you have been approved.

CLOSING COSTS

The following guide will give you general closing costs associated with the purchase or sale of a cooperative or condominium. Please note that these are estimates and that potential buyers and sellers should consult their real estate attorney and financial advisor for specifics. We do not represent that these cover the spectrum of potential costs, but rather is a general guide.

CO-OP CLOSING COSTS

FOR THE SELLER

Broker: Typically 6% depending upon size and marketing

Own Attorney: Consult your attorney

Co-op Attorney: \$500+

Flip Tax: 1% to 3% of Price (if applicable)

Stock Transfer Tax: \$0.05 per share (if applicable)

Move-out Deposit: One time fee of \$500+

NYC Transfer Tax: 1% of price up to \$500,000;
or, 1.425% of price if \$500,000 and over;
plus \$100 filing fee.

NY State Transfer Tax: \$2 per \$500 of price,
or 0.4% of purchase price

Payoff Fee to Attorney: \$400+

UCC-3 Filing Fee: \$75+

FOR THE PURCHASER

Own Attorney: Consult your attorney

Bank Fees: Points: 0% to 3% of loan value

Application, credit check, etc.: \$500+

Bank Attorney: \$750+

Miscellaneous Bank Fees: \$500+

Lien Search: \$300

UCC-1 Filing: \$75+

Appraisal Fee: \$300+

Application Fee: \$500+ (Credit Report/Appraisal)

Short Term Interest: Equal to interest for balance of
month in which you close

Move-in Deposit: One time fee of \$500+

Recognition Agreement Fee: \$250+

Maintenance Adjustment: Monthly carrying costs,
maintenance, and assessments, if any, are pro-rated
depending on when the closing is held

Mansion Tax: 1% of entire purchase price where price
is \$1,000,000 or more.

CONDOMINIUM CLOSING COSTS

FOR THE SELLER

Broker: Typically 6% depending upon size and marketing

Own Attorney: Consult your attorney

Processing Fee: \$450+

Move-out Deposit: One time fee of \$500+

NYC Transfer Tax: 1% of price up to \$500,000;
or, 1.425% of price if \$500,000 and over;
RPT filing fee \$125

NY State Transfer Tax: \$2 per \$500 of price, or
0.4% of purchase price

Miscellaneous Title Fees: \$200

Payoff Fee to Title Closer: \$300+

Note: For condominiums in new developments, the Purchaser
will pay costs normally paid by the Seller. These include Seller
attorney fees as well as NY and NYC Transfer Taxes.

FOR THE PURCHASER

Own Attorney: Consult your attorney

Bank Fees: Points: 0% to 3% of loan value

Application Fee: \$500+ (Credit Report, Appraisal)

Bank Attorney: \$750+

Tax Escrows: Two to six months

Appraisal Fee: \$300+

Recording Fees: \$400+

Mortgage Tax: 1.80% of amount of mortgage on loans
up to \$500,000; or, 1.925% of amount of mortgage on
loans of \$500,000 and over

Short Term Interest: Equal to interest for balance of
month in which you close

Fee Title Insurance: Approx. \$450 per \$100,000 of
purchase price

Mortgage Title Insurance: Approx. \$200 per \$100,000 of
mortgage amount

Municipal Search: \$400+

Managing Agent Fee: \$250+

Common Charge Adjustment: Monthly carrying costs,
common charges, real estate taxes, and assessments, if any,
are pro-rated depending on when the closing is held

Real Estate Tax Adjustment: One to six months

Mansion Tax: 1% of entire purchase price where price
is \$1,000,000 or more.

Move-in Deposit: One time fee of \$500+

Title Closer: \$250