

*First-Time
Condominium
Buyer's Guide*

COASTAL CONDO REALTY

Written by Greg Anderson LCAM, ARM

Broker/Owner

38 Years experience
specializing in condominium sales and management.

Copyright © 2004

All rights reserved.

This text, or any of its parts, may not be reproduced in any manner without prior written permission from the author.

TABLE of CONTENTS

Section One: Buying is Scary

- Common Misconceptions

Section Two: Renting vs. Buying

- Cost Comparison

Section Three: Understanding Condominiums

- Definition
- Condominium/Association Fees
- Association/Management
- Financial Position of Association

Section Four: Obtaining Financing

- Contacting a Mortgage Lender
- Qualifying for a Mortgage Loan

Section Five: Buying Process

- Shopping on Your Own
- Shopping with a Real Estate Agent
- Selecting a Real Estate Agent
- Preparing to Buy
- Becoming a Decisive Buyer
- Evaluating Condominium Communities
- Being a Qualified and Educated Buyer
- Making an Offer

Section Six: Knowing Who Does What

- Mortgage Lender
- Real Estate Agent
- Title Agent

Section Seven: Coast Condo Realty

- General
- Associates

Section Eight: Glossary

Section One

Buying is scary—Am I ready?

Common Misconceptions

- “I need to save for a down payment.”
Not necessarily.
 - ◆ Today’s lending industry has changed significantly and is much more stringent. However...
 - ◆ Many loan programs are in place providing 95% financing.
 - ◆ Programs allow Sellers to participate in down payment funding for Buyers.

- “I cannot qualify for a mortgage loan.”
How do you know?
 - ◆ Call a lender.
 - ◆ Getting pre-approved is easy and should not cost anything.
 - ◆ Lenders request your annual income, Social Security number and birth date in order to acquire your credit report.
 - ◆ Typically, you will have a response within 24 hours.
 - ◆ You will know if you are qualified to obtain a mortgage loan and how much you can borrow.

- “I am not ready to make a commitment.”
Leasing is more binding than buying.
 - ◆ A typical lease is 12 months.
 - ◆ You may sell your condominium at *any* time.

- “I cannot afford mortgage payments.”
You may be surprised.
 - ◆ Your mortgage payment may be less than, or close to, your monthly rent.
 - ◆ Your tax expense will be reduced with deductions for mortgage interest and using home office space.

- “I cannot afford to pay closing costs.”
You may not have to pay closing costs.
 - ◆ You may negotiate for Seller assistance.
 - ◆ Closing costs may be financed along with your mortgage loan.

- “I have bad credit.”
You may be approved with minimal effort.
 - ◆ Some lenders specialize in financing Buyers with credit issues.
 - ◆ Lenders provide guidance to clean up your credit, putting you in a more favorable borrowing position.

- “I cannot pay for real estate agent services.”
As a Buyer, representation is free!
 - ◆ Buyers have absolutely no cost to be represented by a real estate agent.
 - ◆ Sellers absorb real estate commission expenses for both the Buyer’s and Seller’s real estate agents.

SECTION TWO

RENTING vs. BUYING

The following illustration assumes \$700 monthly rent (increasing \$35 month, annually); four year time period; versus \$90,000 mortgage; 6% interest rate; 30 year loan; 28% tax bracket; 4% annual appreciation; \$100 monthly condo fees; and \$1,500 annual real estate taxes.

*Appreciated Real Estate Value - Mortgage Payoff = Real Estate Equity

\$101,237 - \$85,153 = \$16,084

	RENT	BUY
Rent	\$36,120	N/A
Mortgage, Taxes, Condo Fees	N/A	\$36,701
Real Estate Tax Deduction	N/A	1,680
Mortgage Interest Deduction	N/A	5,895
Real Estate Equity*	N/A	16,084
TOTAL Expense	\$(36,120)	\$(13,042)

This is how buying
saves more than \$23,000 compared to renting
over a four year period.

Net Cost over Four Years

The cost of RENTING is \$23,078.20 MORE than the cost of buying!

What is my return?

Four years of renting — \$0

Four years of owning — \$23,078

Parents paying rent for college
students should take note!

\$23,000 is the equivalent of a
college education!

**BUYING A CONDO EQUATES
FREE COLLEGE!!**

SECTION THREE

Understanding Condominiums

Definition

- Condominiums are a form of real estate ownership, both exclusive and undivided; they are not defined by style.
 - ◆ Exclusive — Individual Unit
 - Solely for the owner’s use, typically, including:
 - ◆ Interior space (perimeter walls, ceiling and interior walls);
 - ◆ Doors, door jambs and hardware;
 - ◆ Window frames, windows and screens;
 - ◆ Appliances, including hot water tank, furnace and air conditioning; and
 - ◆ Plumbing and electric servicing the individual unit.
 - Owner is responsible for maintenance and repairs.
 - ◆ Undivided — Common Area
 - Available for use by all owners in the community, typically, including:
 - ◆ Features of the community outside an individual unit (sidewalks, grass areas, clubhouse, pool, etc.); and
 - ◆ Building exterior, streets, and foundation.
 - Association is responsible for maintenance and repairs.
 - ◆ Exclusive/Undivided — Limited Common Area
 - Portion of the common area that is limited to an individual owner’s use, typically, including:
 - ◆ Porch, patio, deck, balcony; and
 - ◆ Parking space/carport and often immediate planting area.
 - Responsibility for maintenance and repairs is determined by the Declaration of Condominium and Bylaws.

Condominium Documents

* Articles of Incorporation

* Declaration of Condominium

* By-Laws

A prudent condominium Buyer will read all of the above documents before purchasing , or at least write your offer to purchase contingent upon having adequate time to review them and be sure that you require the Seller to provide them for you within a specific time frame.

If you get too bored in reading all of the documents be sure to review the Declaration of Condominium Sections detailing the “Boundaries of a Unit”, “Maintenance” and “Use Restrictions”. Look further for “Rules and Regulations” and be aware as to whether they are part of or amended into the documents or were they promulgated by the board of directors. This will determine how effectively the rules can be enforced by the board of directors or a court of law.

Condominium/Association Fees

- Typically, fees are paid monthly to cover maintenance and repairs of common areas, and may also cover:
 - ◆ Trash removal;
 - ◆ Snow removal;
 - ◆ Landscaping and lawn care;
 - ◆ Hazard and flood insurance;
 - ◆ Cable and Internet;
 - ◆ Water and sewer charges.
 - ◆ Amenities i.e. pool, tennis courts, clubhouse
 - ◆
- Fees vary based on the size of the community and its amenities.
- Fees are not included in your mortgage and could be considered in your loan approval process.

Condominium Association/Management

- Condominium communities are either self-managed, by the Board of Directors (Board), or professionally managed, by a property management company that follows the Board's direction.
- Ownership includes membership in the association, allows you to vote for Board members and permits you to run for a Board position.
- Owners have the right to:
 - ◆ Present complaints or concerns;
 - ◆ Request repairs; and
 - ◆ Have a say in association policy changes/amendments.

Financial Position of Association

- The association's financial position is extremely important.
- A poorly managed association can, potentially, create a financial burden for the owners.
- Obtain the association's current financial statement reviewing the income statement and reserve account.

- A critical component of the financial statement is the amount of funds held in reserve, which provide for:
 - ◆ Emergency maintenance and repair of the common areas; and
 - ◆ Replacement of major components within the common area, such as roofing, painting and paving.

- If the association has inadequate reserve funds,
 - ◆ A special assessment could be imposed; and/or
 - ◆ Maintenance and repairs may be ignored, ultimately affecting property value.
 - ◆ Lenders may refuse to fund purchases.

- On the following page is a sample of monthly payments based on a 30 year mortgage at various interest rates. This illustration does not include taxes, PMI, condominium fees or closing costs.

Loan	3.5%	4.0%	4.5%
\$100,000	\$449	\$477	\$507
\$150,000	\$674	\$716	\$760
\$200,000	\$898	\$955	\$1013
\$250,000	\$1123	\$1194	\$1267
\$300,000	\$1347	\$1432	\$1520
\$350,000	\$1572	\$1671	\$1773
\$400,000	\$1796	\$1910	\$2027
\$450,000	\$2021	\$2148	\$2280
\$500,000	\$2245	\$2387	\$2533
\$550,000	\$2470	\$2626	\$2787
\$600,000	\$2694	\$2864	\$3040
\$650,000	\$2919	\$3103	\$3293
\$700,000	\$3143	\$3342	\$3547
\$750,000	\$3368	\$3581	\$3800
\$800,000	\$3592	\$3819	\$4053
\$850,000	\$3817	\$4058	\$4307
\$900,000	\$4041	\$4297	\$4560

SECTION FOUR

Obtaining Financing

Contacting a Mortgage Lender

- Pre-approval:
 - ◆ Determines your eligibility to obtain a mortgage loan;
 - ◆ Qualifies the amount you can borrow;
 - ◆ Proves that you are a qualified buyer; and
 - ◆ Creates a stronger position for purchase contract negotiations.
- Sellers have the option to require Buyers to submit a letter of pre-approval prior to acceptance of an offer to purchase.
 - ◆ Most likely, Sellers will exercise this option.
 - ◆ If you are not pre-approved for a mortgage loan, your offer to purchase will, most likely, be countered or dismissed.

Qualifying for a Mortgage Loan

- Generally, lenders require two years of employment with the same employer, or in the same field of employment.
 - ◆ If you have a college degree and are employed in your field of study, lenders may consider college time as employment.
- Typically, your monthly mortgage payment (principal, interest, mortgage insurance and taxes) should not exceed 32% of your monthly gross income.
- For loan purposes, condominiums are considered to be conforming or non-conforming to guidelines set by Fannie Mae, Freddie Mac, FHA and VA.

NOTE: When applying for a loan, inform your lender that you are purchasing a condominium to determine what affect your loan program could have on site selection.

- *Be prepared to provide earnest money.* Industry standard is 1% of purchase price. Have this money available.
 - ◆ Earnest money is offered as an indication of good faith regarding your future performance of the purchase agreement.
 - ◆ This money is returned at closing or applied to purchase price, assuming you meet the terms of the purchase agreement.
- *Determine if you will put money down on your purchase.* Have the down payment money quickly accessible.

Becoming a Decisive Buyer

- Know what you want and go for it! In today's market, desirable condominiums move quickly, some within hours, from listing to in-contract.
- Ask your real estate agent to educate you.
 - ◆ Initially, view condominiums that are slightly higher and lower than your price range, enabling you to set realistic expectations.
- Drive through condominium communities.
 - ◆ Do you like the general look and feel?
 - ◆ Is the community well-kept?
 - ◆ What is the condition of the common areas?
 - ◆ Are you comfortable with the demographic make-up?

Evaluating Condominium Communities

- Does the community demonstrate resell potential?
 - ◆ What is the average days on market from listing to sold?
 - ◆ Has the community appreciated its value?
- Does the community meet guidelines of your loan program?
- What is the ratio of owner occupancy?

- What is the condition of the community?
 - ◆ How are the streets and sidewalks?
 - ◆ Is fencing well maintained?
 - ◆ What are the condition and age of the roofs?
 - ◆ Are the grounds landscaped and well-groomed?
 - ◆ Do the buildings need paint?
 - ◆ Are the streets in good condition?
 - ◆ Is the landscape new, mature, healthy or dying?
- What are the rules/regulations (pet policy, rental policy, RV/boat and guest parking, etc.)?
- Can you imagine living there?

Being a Qualified and Educated Buyer

- Have a pre-approval letter from your lender.
- Select a real estate agent who specializes in condominium sales.
- Set realistic expectations.
- Be decisive.
- Understand the affect of your loan guidelines on site selection.
- Choose a community that demonstrates resell potential.

Making an Offer

- Have proof of your ability to pay—your pre-approval letter.
- Offer a realistic, fair purchase price.
- Provide adequate earnest money to ensure that your offer appears serious.
- Choose your conditions and contingencies wisely, including only those that you really need or want.
- Don't demand things that may be standard in your agents offer to purchase like home warranties. Why would a Seller buy you a home warranty if all the major appliances are new?

SECTION FIVE

BUYING PROCESS

Shopping on Your Own — Ask yourself, do I . . .

- Know how to find current listings?
- Have time to arrange showings for the properties I want to view?
- Know how to select a condominium community?
 - ◆ Does the community meet loan program guidelines?
 - ◆ What is the community's history of appreciation and resell?
- Understand purchase contracts and property disclosure requirements?
- Know methods of negotiating the purchase contract?
 - ◆ A Seller whose condominium is listed with a real estate brokerage, has a listing agent to negotiate on his/her behalf.
 - ◆ A condominium that is "For Sale by Owner" may be overpriced.
- Know that, prior to loan approval, lenders require specific documents relating to the condominium community?
 - ◆ What documents are required and how are they obtained?
- Know what inspections are required prior to closing?
 - ◆ What are they and how are they obtained?
 - ◆ Who is responsible for paying for them?
- Know what to expect at closing?

SECTION SIX

KNOWING WHO DOES WHAT

Each professional has specific duties. During your acquisition of real estate, you will work with a mortgage lender, real estate agent, home inspector and title agent. Each of these parties assist one another in obtaining documents required by your lender and information you will need to know before proceeding to closing.

Direct questions to the appropriate agency.

- Mortgage Lender
 - ◆ Loan origination fees
 - ◆ Explanation of loan programs
 - ◆ Status of approval process
 - ◆ Loan payments, PMI, escrow funds

- Real Estate Agent
 - ◆ Specifics related to property
 - ◆ Terms of purchase contract
 - ◆ Inspections, scheduling & response per terms of the contract
 - ◆ Warranties

- ◆ Home Inspector
 - * Unforeseen damage, leaky roof, damaged subflooring
 - * Condition of electrical and plumbing systems
 - * Condition of appliances, HVAC, windows

- Title Agent

SECTION SEVEN

COASTAL CONDO REALTY

General

- Coastal Condo Realty was founded by Greg Anderson after 25 years operating Central Ohio's only real estate brokerage firm specializing in condominium sales.

- Coastal Condo Realty associates:
 - ◆ Are educated.
 - ◆ Have been acknowledged as condominium experts.
 - ◆ Participated in the sale and/or purchase of condominiums in over 75 communities.

Associates

- Greg Anderson, Founder/Owner, Broker
 - ◆ Bachelor of Science, Business Administration w/emphasis in Real Estate and Urban Land Economics
 - The Ohio State University
 - Florida Licensed Real Estate Broker
 - Accredited Residential Manager
 - Licensed Community Association Manager

COASTAL CONDO REALTY

Broker/Owner Greg Anderson spends the bulk of his week as the On Site Property Manager at Land's End Condominiums

At Sunset Beach, Treasure Island, FL

A six association community with 177 units valued at over \$150 Million

Shopping with a Real Estate Agent — Real estate agents . . .

- **WORK FOR BUYERS FOR FREE!** Compensation is received from Sellers.
- Know the market value, which is important in determining the offer to purchase.
- Evaluate resell potential.
- Have access to the Multiple Listing Service (MLS), which,
 - ◆ Showcases properties that are listed with real estate brokerages;
 - ◆ Is only accessible by real estate agents; and
 - ◆ Is instantly updated when real estate is listed.
- Research listings to find properties matching your criteria.
- Arrange showings to accommodate your schedule.
- Evaluate the financial position of condominium associations.
- Negotiate the purchase offer in your best interest.
- Communicate with your lender to ensure that the loan approval process progresses in a timely manner.
- Order required inspections/warranties and negotiate who pays for them.
- Guide you through the closing process and attend closing with you.

Selecting a Real Estate Agent

- Interview agents to determine if he/she understands the specialties of purchasing a condominium.
- Select an agent who asks questions about you and listens to your needs and provides knowledgeable advice.
- Choose an agent you like; someone who makes you comfortable.

Preparing to Buy

- *Have an idea of where you want to live.* What is important to you (proximity to work, entertainment, family)?
- *What amenities, if any, are important to you?* Do you want a workout facility, pool, clubhouse? (Condo fees are, generally, reflective of amenities.)
- *Be realistic!* Know what you can afford and shop within that price range.

SECTION EIGHT

Glossary

Multiple Listing Service (MLS) — A listing service whereby local member brokers agree to share listings and to share commissions on properties sold jointly.

Non-Conforming — A community that does not meet owner occupancy ratios as required by specific loan programs.

Private Mortgage Insurance (PMI) — Typically, required by lenders (based on a loan to value ratio higher than 80%) to reimburse the lender for any loss in the event of loan default. This fee is added to and included in your mortgage payment. It may be eliminated when the loan to value ratio falls below 80%.

Reserve Funds — Cash on deposit or other highly liquid assets acquired from condominium fees to cover general maintenance and repairs, as well as replacement costs associated with major projects.

Special Assessment — Involuntary lien levied against condominium owners to cover the cost of capital improvements.

Taxable Expenses — Real estate taxes and mortgage interest that can be deducted to lower taxable income.

Veteran's Administration (VA) — Mortgage loan program offered to veterans. VA loans have guidelines the condominium community must meet in order to obtain financing approval.

Hopefully, this guide has provided an overview and brief education regarding your consideration to purchase a condominium.

We, at **COASTAL CONDO REALTY**, hope you select us to represent you in your acquisition and realize the value and significance of our expertise in the condominium market.



Greg Anderson, Broker/Owner

This guide is intended for general informational purposes and is subject to errors and omissions.

Copyright © 2004

All rights reserved.

This text, or any of its parts, may not be reproduced in any manner without prior written permission from the author.

COASTAL CONDO REALTY

2526 West Brook Lane
Clearwater, FL 33761

(727) 503-2177

coastalcondorealty.us
greg@coastalcondorealty.us

