

Condo vs Coop

In New York City and in the US, when looking to buy an apartment, the two main choices are either condos or co-ops. This article will focus on residential properties and weigh the main differences and pros and cons of buying condos versus co-ops.

I Condos

A condominium is a building in which each owner has a percentage ownership of the entire property.

A condo owner owns an individual apartment as well as an undivided interest of the common elements of the building along with other unit owners. The common elements include the land and the improvements common to the building (elevators, hallways, gym...) The common areas are owned as tenants in common.

Finally, the condo is governed by a board of directors which maintains the common elements and enforce the regulations.

Four types of legal documents are associated with the creation and operation of a condominium.

- 1) **The condominium declaration:** this document establishes the existence of and further governs the use and maintenance of a condominium property.
- 2) **Article of Incorporation:** The condominium association is created by filling the Articles of Incorporation with the secretary of state where the development is located.
- 3) **Bylaws of the Association:** Once the condo association is created, it sets its rules. For instance, it describes how many condo meetings will take place in a year, how many board members there will be and how and when they will be elected...
- 4) **Rules and Regulations:** This document explains the implementation of the day-to-day activities in the building. It can talk about the pool opening hours, the use of the elevators....

II Co-op

Co-ops, also known officially as housing cooperatives, are a legal entity owning (or leasing) real property for the use and exclusive occupancy by the corporation's shareholders. In other words, co-op members do not directly own any real estate, but they own the share of the co-op.

Each apartment in a co-op is allocated a specific number of shares of stock and when an individual buys a co-op, he is buying those shares in the corporation.

Since a unit is not bought directly but instead is a share of a company, the contract to purchase the shares is called a **subscription agreement**. Ultimately, when the buyer closes on a unit, he will receive a **stock certificate**.

Another important aspect of a co-op is that the board will require an interview and an application package with the potential new shareholder. Even though the application package may vary, it often includes:

- 1) basic information about the purchaser (name, contact information, employment history)
- 2) one or two years of tax returns
- 3) reference letters
- 4) Mortgage commitment letter

Another important document when purchasing a unit in a co-op is a **proprietary lease**. The proprietary lease states the rules between a tenant (the Buyer) and the landlord (the Co-op). The proprietary lease also means that in many cases, a shareholder of the co-op will require the approval of the cooperative corporation to make any changes or alterations to his unit. In many cases, such consent, is provided via an **alteration agreement**. The corporation's goal is to shift most of the risk and cost to the shareholder and as such, they would usually require detailed plans, drawings and specifications for review and approval by the corporation and its professional engineer.

III Condo and Co-op Market

Although in NYC there are around seven times as many co-ops as condos, the co-op form of ownership fell into disfavor in the late 1980s when buyers and brokers reacted against the control that the co-op boards exercised. Developers favored condo construction and conversion over co-ops.

In New York, the average condo price is on average 30% more than co-op prices. This price difference is due to a higher demand for condos than for co-ops.

Finally, closing costs differ between condos and co-ops. As a Buyer, the closing costs are higher for condos and, as a Seller, the closing costs can be higher for co-ops. However, oftentimes, co-ops require from the Buyer a minimum down payment of 20%-25% and **post-closing liquidity** of 24 to 48 months consisting of cash and/or cash equivalents to pay for the mortgage and maintenance payments.

When you buy a condo and use a lender you must pay a mortgage recording tax. The latter only apply to the purchase of real property and a co-op is considered a **personal property**. However, when you sell a co-op a **flip tax** may apply based on the co-op rules.

