

To Buy: Condo, Co-op or Townhouse?

BY DAVID J. KNIGHT

To purchase an apartment or to rent? That is the question facing more and more transferees to the New York area. With rental prices spiraling out of control, the inflated but stable ownership market is looking more attractive than ever. The educated transferee who is familiar with the various types of ownership available in Manhattan will be one step further along in this complex decision making process.

Most transferees will be faced with selecting between three basic ownership options: cooperative, condominium or townhouse. The mechanics of purchasing a condominium or townhouse are essentially the same as purchasing a home in any other part of the United States—select a property, negotiate the sales price, secure financing, set a closing date and move in. Once a property has been selected and a sales price agreed upon, one can expect the normal process to be accomplished within a one-to-three-month period.

The notion of cooperative ownership, quite commonplace in Manhattan, is not popular throughout most of the country, and is therefore a less familiar concept to many transferees. Unlike owning a condominium or townhouse where the purchaser actually holds the title and owns the premises outright, a cooperative apartment is owned by the cooperative corporation. The owner, called a Subtenant, is issued shares of stock in the corporation (according to the size and type of apartment), and is subsequently given a proprietary lease to the actual premises.

Cooperative buildings are governed by a Board of Directors (resident share-holders) that is elected by the residents to uphold the corporation's by-laws and amendments. Many cooperative buildings have

quite extensive rules and regulations, not to mention complicated criteria for those seeking to purchase. For instance, townhouses and condominiums can usually be purchased with as little as 10 percent cash as a down payment. Most cooperatives, on the other hand, require a minimum 25-30 percent cash down payment, and it is not uncommon for a cooperative to require a cash down payment of as much as 50 percent of the total purchase price. Many of the most exclusive New York City buildings are "all cash" meaning 100 percent of the purchase price is paid in cash and no financing is permitted.

A prospective purchaser's monthly cash flow and liquid assets are also of enormous concern to a co-op's board of directors. In the purchase of a condominium or townhouse, the bank usually determines the loan amount based on an applicant's income and assets. Recognizing that all shareholders will be affected if a subtenant falls into arrears or defaults, cooperatives usually require liquid assets well in excess of the monthly maintenance charges or apartment's value.

In addition to the stringent financial criteria that need to be met when applying for cooperative purchase, social and professional stature must also measure up to the standards outlined in the corporation's by-laws. While social and professional references are sometimes required for a condominium purchase, requirements of a condominium's board of managers are seldom as stringent. Finally, if all financial, professional and social documentation is deemed acceptable, purchasers will be required to attend a personal interview with the co-op's board of directors. While a personal interview is seldom required for a condominium purchase, condominium boards do have a Right of First Refusal on each purchase application. This "right" requires the board to issue a waiver allowing the deed to be transferred.

Issuance of such a waiver may take anywhere between seven days and three weeks, compared to the cooperative application process which can take from three to five months before a closing actually takes place.

Clearly, condominium and townhouse ownership has advantages over the cooperative alternative. Aside from the obvious financial considerations, owning a condominium or townhouse offers more freedom vis-à-vis a resident's anonymity and privacy, the ability to rent, the ability to renovate with less red tape, and an abbreviated process on re-sale.

However, the fact that nearly all apartment buildings in New York City, particularly the coveted prewar apartment buildings, are cooperatives, explains why this type of ownership has flourished over the years and how complex the choice of co-op versus condominium versus townhouse can be.

Any experienced New York City real estate broker should be able to provide a lengthy list detailing the pluses and minuses of each type of ownership. For those who remain unsure, unconvinced or uncommitted, renting an apartment for a twelve-month period may be the answer. With all the stress that is surely a part of a normal relocation, this no-pressure, short-term alternative can, in the long run, be the best decision of all. ■

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