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Opening doors for you...

This guide is written in order to assist a potential home buyer in understanding the process behind finding a home. The steps in this guide are typical of the procedure that is followed in any New York City real estate transaction.

Types of Property

There are three basic types of residential property in New York City, Cooperative apartments (coops), Condominiums (condos), and Townhouses. Below is a brief description of each:

>> Cooperative Apartment

Commonly known as coops, these apartments comprise 75-85% of available apartments for sale in New York City. For the most part, all things being equal, a coop will tend to be less expensive than a condo. Of course there are some exceptions to the rule. Almost all of the Fifth and Park Avenue and the prewar apartments on Central Park West are coops. In Brooklyn, the park facing prewar buildings in Park Slope and numerous prewar buildings in Brooklyn Heights are coops as well. However, on average the price per square foot is going to be lower in a coop than it will be in a condo. The reason for the disparity in price is not the apartment itself but the control that the owner has over it.

A coop unlike a condo or a townhouse is not real property. When purchasing a coop one purchases shares of stock in a corporation. The number of shares received will depend upon the relative desirability, size, and location of the apartment within the building. Apartments on higher floors and with better views tend to have more shares than their lower floored counterparts. The same goes for size. The larger apartments will have more shares than the smaller ones. The number of shares will help to determine the maintenance paid by a particular shareholder.

Maintenance covers the upkeep of the property (repairs, improvements, etc.), employee's salaries (doormen, superintendents, and

porters), as well as payment of real estate taxes, and underlying mortgage payments. A portion of the maintenance will generally also be allotted to a reserve fund. The reserve fund is used in emergencies for capital improvements and for cash shortfalls. Generally, the size of a reserve fund is a good indicator of the financial health of the building. The portion of the maintenance that is interest on the underlying mortgage is tax deductible. The real estate tax portion of the maintenance is also tax deductible.

The coop is managed by a Board of Directors. The board members are voted in by the other building residents. They make the financial and maintenance decisions for the building and conduct interviews of potential residents. The coop board has the right to refuse a potential resident, buyer or renter, without giving cause.

Coops generally require their shareholders to use the apartment as their primary residence. As a result, renting of apartments, known as subletting since the shareholder is the primary leaseholder, is generally frowned upon. Most coops allow shareholders to sublet but for a limited period of time. 2 years is about the average length of allowable sublet, but each board designates the sublet policy and this will vary from building to building.

When purchasing a coop, the prospective buyer is required to use a personal loan rather that a mortgage.   The lender holds onto the stock certificate as collateral and will require the building to sign an Aztech Recognition Agreement before making the loan. The Aztech Recognition Agreement allows the lender the ability to foreclose on the apartment financed in case of default. Typically, coops allow 75% financing. Some buildings allow less than 75% or no financing at all. Sponsor units, units owned by the entity that owned the building before it became a coop, generally allow 90% financing.

HDFC coops are a subset of coop. They are buildings that fall under certain guidelines set by the city of New York. In most cases, HDFC's are in buildings that were in great need of repair. The city stepped in to assist the tenants and sold the apartments to the tenants at very reasonable rates. HDFC's are not for everyone since there is a cap on the amount of money that a tenant can earn. They also have high flip taxes ranging from 15 to 70% of the profit going back to the building if a tenant sells. As a result, HDFC apartments tend to be priced lower and are attractive alternatives for buyers who have a lower income than the average coop buyer.

>> Condominium

Condominiums, condos for short, comprise between 15-20% of the apartments for sale in New York City. However, due to a string of recent condo conversions around the city that number is on the rise. Condos and townhouses differ from coops in that they are real property. A buyer of a condo takes deed to the apartment as well as a portion of the common areas of the building. Like a coop there are monthly maintenance charges known as common charges. These common charges go towards the overall maintenance of the common areas of the condo as well as worker salaries and a reserve fund. However, each unit owner in a condominium is taxed directly by the city of New York. Therefore, each owner is responsible for his own taxes, which are tax deductible. Unlike a coop there is no underlying mortgage on the condo as a whole.

A Board of Managers is elected in a condo, much the same as the Board of Directors in a coop. The difference is in the amount of authority that they have. As elected representatives of the building, they make decisions about the maintenance of the property. They also review the board packages of potential buyers and renters but cannot block the transaction. The board does have the right of first refusal on a sale or rental therefore they have the option to meet any price that the owner of any unit receives. This option is rarely exercised.

The rental or sublet policy of condos is much more lenient than that of coops. This is one reason that condos are preferred by investors. This control and ability to rent the unit is the primary reason that condos are generally more expensive. This is coupled with the fact that the pool of potential buyers is much larger since there is virtually no chance of a board turn down. Condos also allow 90% financing since a mortgage is taken out on the apartment.

>> Townhouse

Townhouse owner ship is not as common within New York City as it is outside of it due to the costs associated with owning one. In New York the most common type of house is a row house. A row house is typically attached, meaning that it is adjoined on both sides by a party wall. Townhouses vary in size, the most common being from 2-5 stories. Townhouses are classified by the number of families for

tax and finance purposes. 1-4 family townhouses are considered residential and 5 families or more are considered to be commercial properties. Some townhouses are known as SRO's (Single Room Occupancy). These buildings have residents who rent a room and share a common kitchen (s) and bathroom (s). SRO's come under a different set of guidelines than other townhouses and requires a certificate of non harassment if a buyer intends to renovate or to change the status of the building.

Residential properties can be financed up to 100% whereas the commercial properties are limited to 75% financing or less.

Finding and Purchasing a Home

>> Preparation

Before buying a home a buyer should take the following steps:

- Choose a New York City Real Estate attorney

- Speak to a mortgage broker or lender. Get a pre-approval from the bank.

- Prepare financial documentation such as tax returns, W-2's, and bank statements.

- Have at least 10% of the purchase price in liquid assets. The amount needed will depend upon the type of property being purchased. Townhouses and Condominiums generally required 10% in cash but coops and commercial properties may require at least 20%. In addition, the buyer should prepare to have an additional 5% of the purchase price for the closing.

- Review your credit report. Remove all disputed claims and clear up any debt if possible, especially outstanding credit card balances.

Once you are prepared to start looking for your new home it's time to....

- Choose an agent

- There are three people that a buyer can choose that will assist

the buyer in assuring a successful real estate transaction. They are a New York City based real estate attorney, a mortgage lender/broker, and a real estate agent. It is to the advantage of the buyer to choose all three of these people to work on their behalf because they are each professionals in a crucial area of the real estate transaction; the contract, the financing, finding the home, and negotiating the terms.

In terms of choosing a real estate agent it is to the buyer's advantage to choose only one. Alternatively, it may work to the buyers disadvantage to work with several agents at the same time. Generally speaking, real estate agents have access to the same listings so by choosing multiple agents the buyer may end up seeing the same properties more than once, since each agent will attempt to show the buyer what's on the market.

The buyer can choose an agent based on any number of criteria. However, communication is the key to having a successful relationship. Make sure that your agent knows what you are looking for in a property. The more information he has to go on, the more efficient (and effective) he will be.

Finding Your Home

Define your parameters. Determining the price range, apt size (in particular number of bedrooms and possibly bathrooms), location, and amenities will make the search much easier. The more specific you are now, the easier it will be for your agent to assist you later.

Be flexible in your viewing times. Try to view properties during the week. Not all properties are shown by open house or on the weekend. In order to maximize the number of properties to be seen, make yourself available to see properties during lunch, before or after work. Having access to a property before others may give you a leg up in negotiating on the property of your choice.

Give feedback to your agent. After you've viewed some properties let your agent know what you like or dislike about them. You may also choose to ask the agent for their feedback as well. They may tell you something about the property that you've overlooked. This is where the agent you choose can make all the difference.

Once that you've selected the home that you are ready to ...

>> Making the offer

Submit a verbal offer to your agent who in turn will submit this offer in writing to the seller or seller's agent. The offer is comprised of the offered price, the desired closing date, amount of down payment, percentage of financing, and any terms of contingency.

Once the offer is submitted you will also need to provide proof of financing. It would be suggested that you complete a net worth statement and gather together bank statements, recent tax returns, and any additional documentation that supports your claims. The more prepared you are at this point in the transaction the more serious the seller will take you.

The seller has the right to listen to multiple offers so by being prepared you may give yourself an advantage over others who are not. In an instance where there are multiple offers this may make a difference. After considering the offers the seller may choose to accept the offer, to counter the offer, or to reject the offer. If the offer is rejected the buyer may submit another offer with different terms. If the offer is countered the buyer will have opportunity to raise the offer or change the terms as well. If the seller accepts the offer then we move to the next stage in the buying process.

>> The contract

Upon offer acceptance the real estate agents will submit a memorandum of sale to the sellers attorney from which they will draw up the contract. The seller's attorney will submit a copy of the contract to the buyer's attorney, who will review the terms of the deal. If the buyer is purchasing a coop or condo the buyer's agent or attorney shall request a copy of the board package, the building financials, and an offering plan. The buyer's attorney will also request a copy of the board minutes if the buyer is purchasing a coop.

The real estate attorney is the buyer's last line of defense and will play a vital role from here forward. A real estate attorney can make or break a deal at this stage of the process. This period of the negotiation is known as the period of “Due Diligence”. Generally, the

buyer has 10 days in which to review the contract, agree to the terms, and sign the contract, however, this period of time may vary and will depend upon factors ranging from the number of potential buyers to the sellers desire to move quickly. Upon signing the contract a deposit is due and will be placed in escrow. The deposit amount is negotiable but is generally 5-10% of the sale price, with 10% being the norm.

There are two types of Due Diligence that the seller engages in during the 10 day period. One portion is the legal aspect dealing with the contract and the terms contained, the other is the physical inspection of the property. The buyer has the right to inspect the property prior to signing the contract. It is advisable for a buyer to seek out a licensed professional.

The results of the inspection should be forwarded to the attorney and the real estate agent. If there are any problems out of the ordinary there may be cause for some additional negotiation on the price.

Once the buyer is satisfied with the terms, the contract is signed. Upon signing the contract the buyer should contact his lender in order to start the process of applying for a mortgage. This process coincides with the processing of the board package (if necessary) and will help to determine the eventual closing date. This process usually takes between 6-8 weeks to complete.

>> Board Packages

The vast majority of housing purchases in New York City are condo and coop apartments. If a buyer chooses to purchase one of these forms of ownership they will have to complete a board package as part of the purchase process.

Whether the buyer chooses a coop or condo, the buyer must submit a board package with a copy of an executed (signed by both parties) contract. A typical cooperative board package requires at the minimum, the following: Personal and Business Reference Letters, W-2's, pay stubs, or Employment Verification Letters; Bank and Brokerage Statements, Net Worth Statement, two-years tax returns and the mortgage application and loan commitment.

It is important that the buyer work with his/her agent in order to

properly complete the board package. The package should be neat, presentable, and contain a letter of introduction. Once the board package is complete your agent will submit it to the managing agent for review. The managing agent will review the package, and if all is in order, will submit it to the board.

If the buyer is purchasing a coop there will be an interview conducted by the board. After the interview, the board will notify the buyer of their decision, generally within 72 hours, but boards will reserve the right to take longer if desired.

If the buyer is purchasing a condominium there will only be a review of the board package but, there will be no interview. The board of a condominium does not have the right to turn down a buyer that is acceptable to the seller. However, they do retain the right of first refusal on any purchase.

Upon board approval, the buyer must notify his attorney who will coordinate the closing date with the seller's attorney. A closing typically takes place 7-14 days after board approval.

>> The Closing

When the closing date is set the buyer will arrange for a final inspection. This final inspection, or walk through, is generally held as close as possible to the closing itself. When it is possible it is best to have the walkthrough immediately before the closing. This will assure the buyer that the property will be delivered in the same condition as when they left it.

At the closing, the buyer will sign papers agreeing to a mortgage (if applicable) and provide a check for the difference between what is owed and what the mortgage covers. If the buyer is purchasing a coop they will receive a stock certificate and proprietary lease. Typically, a closing will last about 2 hours. After the papers are signed the buyer will get the keys to the new home.

>> Timeframe

It takes about 1-2 weeks from offer acceptance to an executed contract, 6-8 weeks to secure a mortgage and an additional 1-2 weeks to schedule a closing date. This is a total of 8-12 weeks on average from offer acceptance to close for a townhouse or condo. It generally takes an additional 2-4 weeks for a coop to meet and approve a buyer so the typical time frame for a coop buyer is 3-4 months.

To summarize, the estimated time from accepted offer to closing is:

Townhouse: 2-3 months (60-90 days)
Condominium: 2-3 months (60-90 days)
Cooperative: 3-4 months (90-120 days)

>> Closing Costs for Coops / Apartments

Own Attorney: $1,500 + up
Managing Agent Application Fee: $500 +
Credit Report Fee: $50 - $100 per applicant
Lead Based Paint Disclosure Fee: $0 - $50
Mansion Tax: 1% of purchase price when over $1 million
Move-in Deposit: $500 - $1,000 (usually refundable if no damage)

<u>Mortgage Associated Fees</u>
Origination Costs - points: 0 - 3% value of loan
Application, Credit Check, etc.: $500 + up
Appraisal: $300 + up
Bank Attorney: $500 + up
UCC-1 Filing: $50 + up
Recognition Agreement Fee: $200 + up
Lien Search: $350
Maintenance Adjustment: Prorated for month of closing

These are only estimates. Please confirm closing costs for specific transactions with your attorney and/or mortgage representative.

>> Closing Costs for Condo/Townhouse

Own Attorney: $1,500 + up*
Managing Agent Fee(condo only): $250 - $500
Credit Report Fee: $50 - $100 per applicant
Lead Based Paint Disclosure Fee: $0 - $50
Mansion Tax 1% of purchase price where $1 million and over
Move-in Deposit: $500 - $1,000 (usually refundable if no damage)

<u>Mortgage Associated Fees</u>
Origination Costs - points: 0 - 3% value of loan
Application, Credit Check, etc.: $500 + up

Appraisal: $300 + up
Bank Attorney: $500 + up
UCC-1 Filing: $50 + up
Mortgage Recording Tax: Up to $500,000 is 2.05% of mortgage; over $500,000 is 2.175% of mortgage
Title Insurance, Title Search & Recording Fees: Approximately 0.5% of purchase price
Building Searches: $200 - $400
Recording Charge: $17 per document plus $5 per page
Real Estate Tax Escrow: 1 year

<u>If Purchased Directly from Sponsor: (new construction)</u>
NYC Real Property Transfer Tax: 1% of purchase price up to $500,000
1.425% of purchase price over $500,000
NYS Transfer Tax: $4 per $1,000 of purchase price
Sponsor's Attorney Fee: $1,500

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