

Real Estate First Time Buyer's Guide

Presented by New York Residence

This guide, presented in question and answer format, will help answer many of the confusing aspects of buying a property in New York City. It should be used as a starting point and in conjunction with a New York Residence sales agent.

What are the advantages of buying over renting?

When you rent you have nothing to show at the end of the year. When you buy, and own real property, you are entitled to certain tax deductions at the end of the year and you are building equity.

Why do I need a real estate agent?

A broker has access to many more listings than you will be able to find on your own. Your broker will research and set appointments and act on your behalf. Brokers often know the requirements of certain boards and management companies and can assist you in preparing the board package and getting ready for the board interview. Your agent will help negotiate on your behalf and work in your best interest to procure the most favorable terms of purchase.

What do I need to do first when ready to buy?

First speak with a mortgage broker and get pre-approved for a mortgage. This will not cost anything and you will get a pre-approval letter stating how much money the bank is willing to lend you to purchase an apartment. You will then know what type of apartment is best for you, coop or condo, how much you can afford to put down, and where you can afford to live.

How long does it take to get pre-approved?

Some mortgage brokers can pre-approve you right away and you will get your letter that very same day. Request that a pre-approval letter be emailed or mailed to you.

Do I have to pay a mortgage broker?

No. Mortgage brokers are paid by the banks.

What else should I do?

Fill out a financial statement detailing your assets and liabilities. This will include your job information and salary, liquid assets such as cash, stocks and bonds and mutual funds, other assets such as a 401K, IRA and life insurance and liabilities including any outstanding loans and debts. You should also retain the services of a New York City real estate attorney. New York City is unlike any other real estate and you need an attorney who is familiar with the buying and selling process.

Where can I find a mortgage broker and an attorney and this financial statement stuff?

New York Residence can recommend the professionals you will need to buy an apartment and we have all the forms and paperwork you will need to fill out. Contact us and we will do almost everything for you.

How fast can my agent get me an appointment to see an apartment?

New York Residence will work around your schedule and do all the legwork and phonework to make appointments for you. It generally takes 24 hours to make an appointment for a particular property but you should be ready at short notice in order to see all the properties available to you. The market moves quickly.

Is there an advantage to working with one agent? Shouldn't I have many agents looking for an apartment for me?

Buying an apartment is a big investment. All agents have access to the same listings so it is in

your best interest to form a "partnership" with an agent you like, trust and feel comfortable with. Your agent will then be committed to finding you the best available apartment for the best price. Your agent will become familiar with your likes and dislikes and be able to show you only the apartments that fit your particular criteria. This will save a lot of time and aggravation.

Do I pay my agent for his/her services?

In most cases the seller pays the agent's commission. It generally costs you nothing to work with an agent and will usually save you a lot of time and money to work with an agent when purchasing an apartment.

What is a financial statement?

As stated earlier, your broker will provide you with a financial statement where you will list your assets and liabilities. You will need to do this at the outset in order to find the best apartment suited to your finances.

Why do I have to share my personal information with my agent?

Your agent will then be able to know what apartments are most suitable for your budget and what boards will potentially accept you. In addition, many seller's brokers will not even look at an offer without your broker presenting your financial statement and pre-approval letter. New York Residence will also be able to do a financial analysis based on your financial information to show you what your monthly costs and tax deductions will be. All information is strictly confidential.

What is a co-op?

A co-op or cooperative apartment is a type of ownership where the cooperative corporation owns the property and you buy shares in the corporation. Each unit (apartment) is assigned a certain number of shares based upon size (square foot). You receive a proprietary lease. In essence, you don't actually own real property; you own a percentage of the total shares within the cooperative. You still receive the same tax benefits as owning real property.

What is a condominium or condo?

A condominium is a type of ownership where you own real property. The owners of the apartments share the common areas (halls, lobby, pool, etc.) and the cost of maintaining them. Each owner receives title to their apartment and a deed.

Which is better?

It depends on your needs and your budget. Condos are generally more expensive because there are fewer of them and they have more liberal policies on subletting, renting and selling. Co-op's have boards that set the policies for the building and requirements for potential renters and buyers.

Some buyers like the exclusivity, stability and screening process of cooperatives. Some buyers want a condo for the flexibility to be able to rent their apartment or sublet it at anytime to whomever they want.

You can finance up to 90% in condos; co-ops generally require 20-25% of the purchase price as a down payment. There are some co-op's that require 33% or even 50% down.

Condominiums are the better choice for investors and people from overseas looking to purchase in New York City.

What will a co-op board require?

Generally, they want to see the last two years of your income tax returns, your liquid assets, letters of recommendation from your landlord and employer, reference letters from both business and personal associates and your mortgage information if applicable.

How much will I have to put down on a co-op?

In most cases it will be 20-25% of the purchase price. The amount is not negotiable.

How much will I have to put down on a condo?

10% of the purchase price.

What about closing costs?

It costs about 3X more to close on a condominium than on a co-op because a condo is real property. Estimates of closing costs are on the New York Residence website.

What is an offer?

An offer is a non-binding amount which you propose to pay for a particular property. The offer is submitted in writing by your agent to the seller or seller's agent. For example, an apartment you are interested in is selling for \$500,000. You instruct your agent to make an offer of \$450,000 on your behalf.

If my offer is rejected will I lose the apartment.

In most cases the seller will propose a counter offer to your original offer. Using the example above, the seller may come back with a counter offer of \$475,000 which you will be able to accept or counter. This is where an agent is very important and why you should always use one. Your agent will be able to negotiate on your behalf and help you through this arduous and time-consuming process.

What is a contract deposit?

10% of the purchase price that is due at the signing of the contract. This applies to both condos and co-ops and is applied to the purchase price. It is non-refundable.

Who signs the contract first?

The seller's attorney draws up the contract and sends it to the buyer's attorney. The buyer's attorney does his "due diligence" after which the buyer signs the contract and puts down the 10% contract deposit.

The quicker the contract is signed the better the chances of the purchase taking place. A contract is only binding after both the buyer and seller sign it.

What is a non-contingent mortgage?

The buyer is signing in the contract that he/she will purchase the property regardless of whether or not financing is obtained. If the buyer does not get a mortgage he/she is still responsible for the purchase of the apartment.

Why would a buyer commit to that?

Sometimes sellers will sell only if a buyer agrees to a non-contingent mortgage. If there is more than one buyer for a property, cash buyers come first and non-contingent buyers have next priority. It assures the seller that the buyer is qualified and the deal won't fall through because of financing issues. If you agree to this as a buyer you should be sure that you have the money to buy the apartment without getting a mortgage. You can always take a mortgage on the property after you close.

What is "due diligence"?

Your attorney needs to see the financials of the building and the offering plans and the minutes of the board meetings. After reviewing this information he can tell you if the apartment building is financially secure.

What is maintenance? What are common charges and real estate tax?

Maintenance is the amount you pay monthly to a cooperative for building maintenance and it includes your portion of the real estate taxes which you can deduct from your tax statement at the end of the year.

Common charges are the maintenance fees in a condominium. They are paid monthly and since a condo is real property you are personally responsible for real estate taxes which are paid separately.

Why do I pay maintenance or common charges?

To cover the monthly expenses of the building such as salaries for staff, heat, hot water, repairs, etc.

What fees are tax deductible?

Mortgage interest and real estate tax for both co-ops and condos are deductible from your personal income tax. In a co-op it is a portion of your maintenance. In a condo you pay your own real estate taxes on real property.

What is a board package?

It is a set of documents which you are required to complete and present to the coop board. Generally, it includes the last two years of your tax returns, bank statements, proof of assets and liabilities, all reference letters and mortgage information. All financial information must be provided with documented proof of this information.

The board package is sent to the managing agent for the building who then submits it to the board members of the building for review. You will be required to do an interview with the board if your package is accepted. This is another reason why you should always have an agent. An experienced agent knows many of the ins and outs of particular co-op and condo boards throughout the city and can help guide you through the tedious process.

Do condos have board packages and interviews?

Some do and some don't. Condos have purchase applications which can be just as tedious and time consuming as a co-op board package. Some condos require prospective tenants to meet the board but these are formalities.

Can a board turn me down?

Yes, and they do not have to give a reason. That is why the board package is extremely important and must be presented perfectly. New York Residence specializes in preparing board packages and getting you ready for your interview.

What is a flip tax?

This is a tax (also called a transfer tax) levied by a coop to generate funds for the cash reserve. It is paid by the seller at the time of sale and is a fixed dollar amount per number of shares owned. It is determined by the managing agent and coop board and helps the building prepare for unforeseen repairs or for renovations and upgrades. It also prevents against investors buying and "flipping" apartments at will resulting in a transient, unstable building.

How much is a flip tax?

Every building is different. It is often based on a fixed percentage of the purchase price or number of shares owned and is generally not more than 2% of the purchase price. Some buildings have rolling flip taxes based on the number of years the apartment has been owned. The less number of years owned the more the flip tax. Again, this is to prevent people from constantly moving and keep a stable tenant base.

Do condos have flip taxes?

No. Rather, New York imposes a real property transfer tax on the conveyance of title to the property.

How much are these taxes?

Transfer tax charged on the purchase of a condo is \$4.00 per thousand or 0.4% of the purchase price.

New York City imposes an additional 1% of the purchase price. If the selling price is over \$1 million the NYC transfer tax is 1.425% of the purchase price.

What is a mansion tax?

1% of the price when the price is \$1 million or more paid by the buyer.

What is a tax abatement?

Taxes are abated for a certain period of time for newly constructed apartment buildings.

What is capital gains tax?

Tax on the capital gains which is the difference between the original purchase price and the current selling price. Paid by the seller.

What is a capital gains exemption?

If you have used your apartment as your primary residence for 2 of the last 3 years, you are entitled to an exemption of \$250,000 for an individual and \$500,000 for a couple.

What does tax deductible mean in a co-op? Do all co-ops have the same tax deductibility and why?

The tax deductibility of a co-op is the percentage of the maintenance charge that you are allowed to write off on your personal income taxes at the end of each year. This percentage is different in each building and based upon how much of the maintenance is for the interest payments on the building's underlying mortgage and real estate taxes.

What is an appraisal?

Before the bank issues you a mortgage they must send an appraiser to assess the apartment you are buying to see if it's worth the amount you are paying for it.

What is an assessment?

Sometimes a building will have to perform capital improvements such as purchasing a new boiler, replacing the roof or getting new elevators; each apartment will then be assessed a certain amount based on the number of shares or size of the apartment that they will have to pay to offset the costs of the improvements. It may be assessed as a lump sum or on a monthly basis.

How long does it take to buy either a co-op or condo?

The approval process on a condo can take approximately one month. The approval process for a co-op can take anywhere from 30 to 60 days. From beginning to look at apartments to closing and moving in you should allow 2-4 months.

How many apartments should I look at?

The average buyer looks at from 5 to 15 apartments over a period of 1-3 months. Some buyers purchase the first apartment they see and some take weeks or even months to make a decision. If you see an apartment you like and can afford act quickly. Working with a New York Residence agent will ensure that you get the advantage you need to be ahead of the market.

