



Real Estate 2.0

New York City



COMPASS





Owning a home in New York City



The purchasing process in NYC is unique and more complex than it is in other parts of the country. Here is an overview and timeline of the sequence of events in a typical transaction, once the perfect home has been selected.



How to Buy a Home

New York City



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OFFER: The buyer reviews an analysis of comparable properties and formulates an offer amount and strategy with their broker. The offer will then be verbally submitted by the buyer's broker to the listing agent, who will convey it to the seller. This is followed up with a brief written bio and financial statement from the buyer, enabling the seller to evaluate the buyer's offer and ability to be approved by the co-op board. (2-3 days)

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NEGOTIATION: The seller either accepts or rejects the offer, or responds with a counter-offer. The two parties negotiate through their brokers until an agreement on price, closing date, and any contingencies is reached. (1-3 days)

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SUMMARY: The brokers collect information for the "Transaction Summary", from which the attorneys will draw up the contract including the seller's and buyer's names as they hold title, the attorneys' names, the proposed closing date, amount being financed and inclusions and exclusions of personal property. This summary is then distributed to the attorneys along with documents relating to the building's structure and finances, such as the original offering plan and amendments, and the last 2-3 years of the building's financial statements. The seller's broker should assist in procuring these documents, should the seller not have them. (1 day)

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CONTRACT: The contract is prepared by the seller's attorney, and is then sent to the buyer's attorney for review. Adjustments regarding terms and errors or omissions in the contract take place between the two attorneys (2-3 days) while...

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DUE DILIGENCE: Simultaneously, the buyer's attorney completes all due diligence of the building, including visiting the managing agent's office and reviewing the recent board meeting minutes. Unforeseen issues can arise during this investigation, which a skilled attorney and broker should help navigate accordingly. (2-3 days)

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SIGNED CONTRACT: The buyer signs the final contract and writes a check for the 10% down payment, made out to the escrow account of the seller's attorney. The contract and down payment are delivered to the seller's attorney, and the seller countersigns. Copies are distributed to all parties. (1-2 days)

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MORTGAGE: If the buyer is financing the purchase, they must now apply for the mortgage. The contract will specify a time period in which this must be done, the standard being 5 business days. The mortgage bank will initiate the appraisal process, and the appraiser should contact the listing agent for access within a week. The loan officer can often expedite this if necessary.

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BOARD PACKAGE: If the building requires board approval or waiver, documents required for the application must be submitted by the buyer as specified in the contract (customarily 10 business days). The documents are reviewed, typed, and copied by the buyer's agent, and shared with the listing agent who does a final review before they are forwarded to the building's managing agent. It is the responsibility of both brokers to ensure that the application is complete and presented properly. The managing agent of the building reviews the documents, requests any additional information, and distributes them to the Board of Directors (co-op) or Board Managers (condo).

PLEASE NOTE:

In both co-ops and condos, the Board will not review documents until a mortgage commitment letter is received. A mortgage commitment letter may take between 4-8 weeks to procure. Please check with Carlin about specific timing.

Key Terms

COMMON CHARGE:

Monthly general maintenance fee paid by each owner in a condo building. Property taxes are not included in the common charge.

CONTRACT DEPOSIT:

A percentage of the agreed-upon purchase price, paid by the buyer at the time of contract signing. Customarily 10%.

CO-OP SHAREHOLDER:

Owner of a co-op unit, since they are actually purchasing shares of stock in a corporation rather than ownership of their unit.

DEBT-TO-INCOME RATIO:

An individual or couple's monthly gross income divided by the total of their monthly expenses including mortgage, monthly building charges, car payments, alimony, student loans, and expenses on other real estate owned. This figure will be used in qualifying for a mortgage and as a part of the coop board evaluation.

SPONSOR:

The party responsible for developing a new building or converting an existing rental building to a condo or co-op. When purchasing from a sponsor rather than a seller, it is the buyer's responsibility to pay city and state transfer taxes (approximately 1.825%) which would typically be paid by the seller on a re-sale. Sponsor sales do not require board approval.

MAINTENANCE FEE:

Similar to the common charge, this fee is paid monthly by co-op shareholders towards building operations. This does include property taxes as well as payment towards the building's underlying mortgage. The amount of the maintenance fee is calculated by the number of shares allocated to your apartment, which is based on value (size, floor height, outdoor space, views).

POST-CLOSING LIQUIDITY:

The amount of cash the buyer will have on hand after deducting the down-payment and closing costs. The amount required for board approval varies from building to building.

TAX ABATEMENT:

The government has various tax abatement programs in place to incentivize developers to build in certain areas or to allocate units for lower income residents. Newly constructed buildings often take advantage of these tax abatements and are able to offer prospective buyers extremely low taxes for a set period of time.

REBNY FINANCIAL STATEMENT:

A summary form of a buyer's assets and liabilities, which will be included with the formal offer to purchase all co-ops and some condos.

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INTERVIEW: In a Co-op, a board interview date is set (usually within 3-4 weeks of receiving the package, but can be up to 2 months in the summer) and the buyer meets with the board at the appointed time. In a Condo, the Board needs to waive its "Right of First Refusal", which can take up to 30 days from receipt of the package. Approval is announced via the managing agent within a day or two following the interview in most cases.

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CLOSING: As soon as there is an approval or waiver, the buyer can close the sale within 1-2 weeks. The attorneys arrange the closing and make sure that all parties are present including buyer's and seller's lawyers, the managing agent, and the lawyers from the banks of the buyer and the seller.

Co-op

Condo

Cost

Can be less expensive, as they have more stringent rules to purchase, reducing the pool of potential buyers and therefore keeping prices more stable.

Typically more expensive as they offer more flexibility (subletting, gifting) and do not have strict requirements on the financial profile of the buyer. Also foreign purchasers are permitted, making for a larger pool of potential buyers, and driving up prices.

Culture

Most units are owner-occupied because the buildings restrict subleasing, and may only allow primary residents. More stable with less turnover.

Mix of owners and renters with a wider profile. More secondary residences and international residents.

Approval Process

Very strict and thorough, all financial info with backup documentation along with personal, professional, and financial reference letters to be provided. In person interview required.

Must disclose thorough financials, but less rigorous—no interview and quicker to approve.

Ownership Type

Indirect. Buyer purchases shares of a corporation. Stock certificate and lease.

Direct.
Buyer owns real property.

Monthly Expenses

Maintenance fees. Amount includes taxes and the shareholders portion of the underlying mortgage.

Common charges.
Taxes paid separately.

Tax Benefits

An owner can write off the portion of the maintenance that went towards real estate tax and their share of the interest on the building's underlying mortgage.

Tax abatement programs, when applicable, may keep taxes low for 10-20 years.

Renting Out Your Unit

Limited, if allowed at all. A typical coop subletting policy allows 2 out of 5 years, once the shareholder has occupied for 2 years.

Easier and unrestricted. The tenant will likely have to complete a simple application and pay minimal fees.

Re-Sale

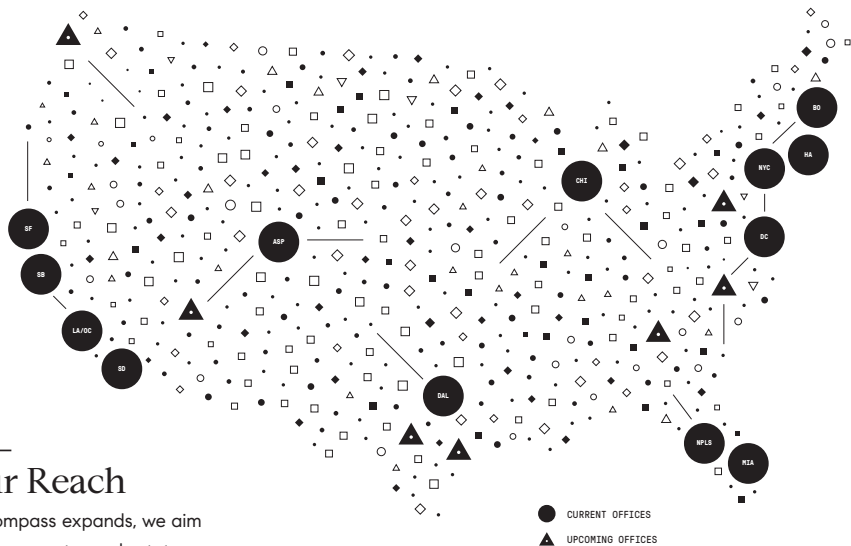
New buyer must be approved by the board, which can lengthen the time from accepted offer to closing. Typically 3 months minimum if no unusual delays occur.

New buyer must submit application and the building is given right of first refusal. Buyer can rarely be denied, unless the building opts to purchase the unit themselves at the contract price.

Investor Friendly

A poor choice for an investor. In rare cases, co-ops will allow subletting, but for the most part they do so only with heavy restrictions.

Yes.

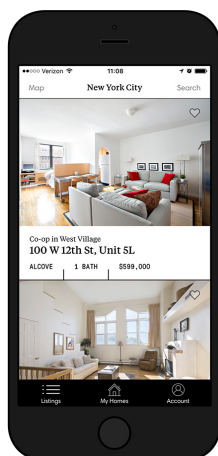


Our Reach

As Compass expands, we aim to bring smarter real estate experiences to renters, buyers, and sellers in major markets across the nation.

Our Technology

Access real-time data from anywhere using our Compass Homes and Compass Markets apps, both designed to deliver the industry's most valuable insights.



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