

CORE

# BUYER'S GUIDE

—

A TRUSTED GUIDE FOR YOUR JOURNEY HOME

Congratulations on your decision to purchase a home in New York City!

While this decision is an exciting one, the steps required to purchase a home are numerous and can become confusing. This guide has been compiled to help clarify the process and assist you on your endeavor.

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# BENEFITS OF HOMEOWNERSHIP

While there are many benefits to owning a home, here are the main reasons:

## INVESTMENT

For most homeowners, their residence is their largest asset. With 20% or more equity invested in your home, as is typical in NYC, your home is a major investment. As you live in and make improvements to your home, and gradually pay down the principal on your mortgage, you are building on this equity.

## INCOME TAX SAVINGS

All of the interest you pay on the first \$750,000 of your mortgage and up to \$10,000 of payments of combined property, state and local income taxes are deductible for income tax purposes. If you own a co-op, you can also deduct the portion of your maintenance payments that go toward interest on the co-op's underlying mortgage and real estate taxes with the same cap of \$10,000.

# TOP 5 TIPS FOR BUYERS

There are five crucial rules to follow as you embark on the purchase of a property:

1. Choose a real estate agent carefully as this person will be the most important advisor in your search. Interview several agents so you are sure to find someone that is right for you and your real estate needs. You will spend considerable time with this person so, in addition to knowledge and experience, trust and fit are key qualities you should seek.
2. Before you begin searching for your property, get pre-approved for a mortgage with a bank and/or a mortgage broker so you have a clear understanding of your budget. Your real estate agent can provide recommendations of trusted lender contacts.
3. Educate yourself on the market by speaking with your real estate agent about property values in different neighborhoods and the differences between cooperatives and condominiums. Take advantage of publicly available information to research recent sales of comparable properties, and visit open houses in addition to those properties introduced by your real estate agent to get up to speed on the current market.
4. Once you find a home you are interested in be sure to do your due diligence. Your real estate agent will help you obtain information about the building's financial condition as well as any renovation or major repairs that may have been done to the property itself and the building. Building policies on financing, pied à terre and subletting vary considerably, and can affect property values.
5. Build out your team wisely. New York is an attorney state so you will need to hire a New York City real estate attorney to represent you in the purchase. Your real estate agent will provide recommendations of competent, experienced attorneys from whom you can choose.

# KEY STEPS FOR PURCHASING A HOME

Like most big purchases, buying a home is a process:

## **CONSULT WITH A MORTGAGE BROKER, BANK OR FINANCIAL ADVISOR**

Before you begin looking, you need to determine your budget. If you are going to finance the purchase, then you must know the loan size for which you qualify based on your personal finances. That in turn will dictate your purchase price which is key for you and your real estate agent as you embark on the search for your new home.

## **GET PRE-APPROVED FOR A MORTGAGE**

Once you have determined your budget, you should obtain a pre-approval letter from a bank or mortgage broker. Your real estate agent will need this letter to submit with any purchase offers to demonstrate your credibility as a buyer.

## **FIND A HOME**

The timeframe for finding your home will vary depending on availability, and can range from one week to many months. It is best to give yourself plenty of time, two to three months if possible. Come up with your top three criteria for your ideal home, for example neighborhood, building type, particular view, exposure, or amenities, and make sure to communicate these to your real estate agent. If you have pets or require specific services, be sure to let your real estate agent know that, too.

## **NEGOTIATE**

Once you have identified the property you want to purchase, your real estate agent will guide you through the negotiation. While price is paramount, there are other important terms to consider including timing for close and contingencies for financing and board approval. Be prepared to negotiate all of these terms and use them to your advantage.

## **CONTRACT SIGNING**

Once you have agreed to terms with the seller, your attorney will negotiate the terms of the contract with the seller's attorney, who prepares the contract of sale. At the same time, your attorney will conduct due diligence on the building in which the property is located, specifically reviewing the financial condition of the building, by-laws, and minutes of the board meetings, among other items. When your attorney has completed these steps and advised that the deal is sound, you will sign the contract and return it to the seller's attorney with a down payment (typically 10% of the purchase price). The seller will then countersign whereupon you have a binding contract. Until both parties have signed the contract, neither party is bound to the transaction so it is very important that all parties act quickly and in good faith toward contract execution.

## **APPLY FOR A MORTGAGE**

If you are financing, you will need to finalize your loan application in order to obtain a loan commitment. This will require submission of substantial paperwork including proof of income and assets; bank statements for all accounts; two to three years of tax returns; reference letters; and the loan commitment as well as other bank documents related to mortgage financing.

### **COMPLETE THE PURCHASE APPLICATION**

Nearly all cooperative and condominium buildings require buyers to submit a purchase application, aka a “board package,” for review and approval by the board of directors. Your real estate agent will guide and advise you through this process and assemble the package on your behalf. The required materials typically include the completed application; a financial statement detailing income, assets and liabilities together with substantiating documents including bank statements for all accounts; two to three years of tax returns; reference letters; and the loan commitment as well as other bank documents related to mortgage financing.

### **SUBMISSION OF THE BOARD PACKAGE**

Once the board package is complete, your real estate agent will submit it to the building’s managing agent for initial review. It is then sent to the building’s Board of Directors for final review. If you are purchasing in a cooperative, the Board will then decide whether to grant you an interview which is the final step in the approval process. Your real estate agent will instruct you on how to prepare for the interview. If you are buying a condominium, a board interview is not typically required.

### **CLOSING**

Once board approval is secured, your real estate agent and attorney will take the required steps to schedule closing. There are often many parties involved in the closing so it typically takes at minimum one to two weeks following approval for closing. In total, the process from accepted offer to close can take between 30 and 90 days. Speak with your real estate agent and attorney to establish the budget for closing costs. Prior to closing you should also secure homeowner’s insurance for your new home.

## **DIFFERENT TYPES OF OWNERSHIP**

In New York City, there are four property types:

### **COOPERATIVE**

A cooperative or “co-op” is actually a corporation that owns a multi-unit building; the corporation is governed by a board of directors that is made up of people who live and/or own in the building. When purchasing a unit in a co-op, you are purchasing shares in the corporation, not real estate. In addition to the shares, you will receive a proprietary lease entitling you to use the unit. The proprietary lease, by-laws, and house rules are the governing documents for the co-op and outline the rules and policies to which all shareholders must adhere. All shareholders pay a monthly fee called maintenance to cover the building’s shared expenses including utilities, insurance, staff salaries, the co-op’s underlying mortgage payment and real estate taxes. Although a co-op is not technically real estate, many lenders will provide financing to buyers with terms that are comparable to those for a condominium or single-family purchase.

In order to purchase a home in a co-op, you must be approved by the Board of Directors. Prospective buyers submit their qualifications in the form of a “board package.” The board can approve or deny any applicant and is not legally required to disclose the reasons for its decision. Your real estate agent is an invaluable resource in guiding you through this process.

## **CONDOMINIUM**

A condominium or “condo” is an apartment building or other multi-unit complex where the units are individually owned as real property. When purchasing a unit in a condominium, you purchase the physical real estate plus a proportionate share of the building’s common elements. Once purchased, you will receive a deed to the property. As a condo owner you are responsible for payment of monthly common charges for the cost of building operations as well as for real estate taxes.

In New York, most condominiums require buyers to submit a purchase application. The condominium association has the right of first refusal on any sales or rentals within the condominium. This means the association legally can match the terms of your offer and purchase the unit in your stead, though as a practical matter this happens very rarely.

## **CONDOP**

The term ‘condop’ refers to a hybrid apartment building that includes both condominium and cooperative ownership structures wherein the residential portion is treated as a single condominium unit owned through a cooperative- ownership structure, and the commercial portion is one or more separate condominiums. In practice, a ‘condop’ typically refers to a cooperative that operates more like a condo with respect to its policies and procedures. For example, many condops do not require a board interview and have flexible sublet policies; some may employ a right of first refusal in lieu of board approval for sales and rentals. If you are considering a condop, your agent can advise you further on the pros and cons of this property purchase.

## **TOWNHOUSE**

In New York City, a townhouse most often refers to a single-family or two-to-four unit attached row house which often dates back to the mid-to-late-nineteenth century. A townhouse is considered real property for which the owner is solely responsible for payment of real estate taxes as well as all repairs and maintenance. There are a number of neighborhoods that are known for their concentration of townhouses including the West Village, Upper East and Upper West Sides, and several historic areas of Brooklyn.

# TIPS FOR OBTAINING A MORTGAGE

Since securing a mortgage can be overwhelming, it’s best to:

## **START EARLY AND BE PREPARED**

To obtain the best terms, you will need a strong credit score and extensive paperwork including tax returns and a thorough accounting of your income.

## **COMPARISON SHOP**

Speak with several banks and mortgage brokers to learn about different loan products and obtain several quotes for terms. Choose the best product and terms for your needs.

# CLOSING COSTS

As closing costs can be significant, it is important to have an understanding of them as you plan for your purchase. Closing costs vary depending on whether you are purchasing or selling your home, and also depending on whether the property is a cooperative versus real property (e.g., condominium or single-family home).

## FOR THE PURCHASER

Attorney	\$2,500 + up *
Managing Agent Fee	\$250 - \$500
Credit Report Fee	\$50 - \$100 per applicant
Lead Based Paint Disclosure Fee	\$0 - \$50
Transfer Fee	0.5 - 2% of sale price (may be payable by seller and/or negotiable)
Processing Fee	\$250 - \$750 to Management
Mansion Tax	1% of purchase price where \$1 million and over
Move-in Deposit	\$500 - \$1,000 (usually refundable if no damage)

## MORTGAGE ASSOCIATED FEES

Origination Costs – points	0 - 3% value of loan
Application, Credit Check, etc.	\$500 + up
Appraisal	\$275 + up
Bank Attorney	\$500 + up
UCC-1 Filing	\$50 + up
Mortgage Recording Tax**	Up to \$500,000 is 1.8% of mortgage Over \$500,000 is 1.925% 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	2-6 months (verify with bank)

## IF PURCHASED DIRECTLY FROM SPONSOR

NYC Real Property Transfer Tax	1% of purchase price if \$500,000 or less 1.425% of purchase price if over \$500,000 of the entire amount
NYS Transfer Tax	0.4% of purchase price
Sponsor's Attorney Fee	\$2,500 + up *

\* Check with bank/mortgage broker for additional fees. New York State Law requires a written letter of engagement if the legal fee will exceed \$3,000. Non New York State residents should procure exemption for state transfer tax forms (TP584).

\*\* These costs apply to real property only, not to cooperatives.

These are only estimates. Please confirm closing costs for specific transactions with your attorney and/or mortgage representative. CORE agents are here to ensure your experience is easy, seamless and positive.



# CORE

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