

May We Condo or Should We Co-op?

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Would you like to be a landowner or a stockholder? This appears to be the basic premise for many people trying to decide between buying a condo or a co-op. Like many things, this premise is over-simplified. In actuality, there are very real and distinctive differences between having a condo versus having a co-op.

Quality of Life Issues

Condo boards have only limited power over the subletting of apartments, making it more likely to have rental or transient tenants. Co-ops tend to have strict subletting policies, thereby allowing the board to have greater control over the number of renters in the building. Also, co-ops are usually successful in evicting truly troublesome tenant-shareholders because the shareholder's right to occupy the apartment is dependent upon compliance with the proprietary lease. Any shareholder violating house rules or bylaws would be in violation of the lease and would therefore lose his right to occupy the apartment.

What about condos? A condo's board of managers does not have the power to evict a unit owner who violates the house rules because the condominium does not own the apartment. Ironically, we have here a major quality of life paradox: People view independence and freedom as critical quality of life issues, yet they also view freedom from unwanted tenants a quality of life issue as well. The problem is, since condo owners have a greater power to "do their thing," this "thing" can also be subletting to a troublesome tenant. Co-ops provide less freedom, but greater stability and consistency, and this is attractive to many people.

Dealing with Defaulters

Co-ops have an advantage over condos in dealing with unit owners who fail to make common charge or maintenance payments. Co-ops are first in line to get money owed to it upon the sale of a delinquent unit owner's shares. In condos, however, the lender holding the mortgage on the unit would generally be first in line to get the money owed by a defaulting borrower. The condo would get its money only after the lender is satisfied. In other words, co-ops usually get what is coming to them; condos may get nailed when a unit owner defaults.

Ability to Raise Cash

Co-ops can usually raise money more easily than condos because they have an underlying mortgage which makes it easier to borrow needed money than in condos, where the owners will have to be assessed in order to raise cash. Even if the co-op needs to refinance its mortgage in order to raise cash, and the tenants will have to repay, that repayment will be made over an extended period of time, by paying higher maintenance charges, rather than by a one time assessment.

Co-ops can also raise money by renting out unused space or increasing commercial rents when existing leases expire. The co-op must be careful, however, not to exceed more than 20 percent of its income from these "nonshareholder" sources. Once this limit is exceeded, the co-op loses its housing corporation status for tax purposes and the co-op shareholders lose their income tax deductions for property taxes and interest on their share loans. Since condo owners own real estate rather than shares in a housing corporation, they pay their taxes directly, and do not have this problem. As a result, although condos have more trouble raising such outside money, any such money raised can be a greater share of their total income.

Conclusion

It is clear that there is a perception among potential apartment buyers that co-ops are generally harder to deal with. This leads to a greater value placed on condos, resulting in a greater price for condo units as compared with similar co-op units. This perception, however, is not always fully accurate. While it is true that there is more restriction in selling and buying the co-op, this restriction leads to greater stability and consistency in the co-op than in the condo, where people have a greater chance to "do their thing." An informed decision as to whether one should buy a condo or a co-op can, therefore, only be made once one looks deeper than restrictions and rules. If one wants the freedom of a condo and can deal with the greater instability and inconsistency, then perhaps the condo is the place to go. If, on the other hand, one wants greater stability and order and can deal with greater restrictions, the co-op appears to be the choice. As in many things in life, the first step in choosing between these two kind of apartment ownership is to "know thyself."