



Condominiums/Co-Ops

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- [Background](#)
- [Condominiums](#)
- [Cooperatives \(Co-ops\)](#)
- [Advantages of Condominiums and Co-ops](#)
- [Disadvantages of Condominium and Co-op Living](#)
- [Conversions to Condominiums or Co-ops](#)
- [Buying a Condominium or Co-op](#)
- [Additional Resources](#)
- [Organizations](#)

Background

While home ownership is a dream most people aspire to, for some it is a difficult one to reach. As housing costs continue to rise, the hope of affording even what was once called a "starter home" seems out of reach for many people. Many people see renting as a better alternative to buying, but renting provides no equity. The answer for people who want to own their own home or who want equity but like the convenience of apartment-type living is to purchase a condominium or a cooperative apartment.

CONDOMINIUMS AND COOPERATIVES are known as *common interest communities*. All the common space, including hallways and corridors, lobbies and common rooms, and exterior grounds, are commonly owned or maintained by all the tenants in the development. Although condominium ownership differs in significant ways for cooperative ownership, both afford the buyer with the opportunity to achieve equity at a relatively reasonable price without giving up some of the amenities of apartment living, such as on-site repair people.

Condominiums

Condominiums, also known as "condos," offer many of the same amenities as home ownership, except that the development is managed by an "association" that acts much like a cooperative's board of directors (see below). Individual owners of condominium units share in ownership of common areas, such as corridors and recreation rooms indoors and courtyards outdoors. The association makes sure that the common areas are kept in good repair. There may be an on-site superintendent, or there may be a maintenance crew on call.

Condominium sales are treated just like house sales; the buyer secures a [MORTGAGE](#) and on the day of purchase signs an actual [DEED](#) for the dwelling. That deed does not grant the same level of ownership that a deed to a house would provide. All the buyer really owns is the air space within the unit. Because the common space is jointly held by all the residents, they are restricted and often prohibited from making any changes, even beneficial ones. Thus, a condominium owner who wants to renovate indoors can install new fixtures, tear out non-supporting walls, even install a new kitchen or bathroom. That same owner is probably not allowed to do any exterior painting or do any gardening outdoors, not even moving a bush or planting a tree. (In some complexes, property is set aside for this purpose, but even then any plantings must conform with the overall

character of the development.)

Condominiums can take many forms structurally. They may be like regular apartments, or they may be townhouses. In fact, many are converted apartment houses or townhouse complexes. Some condominium communities actually offer individual standalone houses; these communities look like typical housing tracts, but again the residents own only the air space inside their homes. Even though each may have a fair amount of property, that property is managed by the association and not the individual owners.

Cooperatives (Co-ops)

A cooperative, more commonly known as a co-op, is generally much more like apartment living than a condo. A large number of co-op buildings actually started out as rental buildings but were later converted. Co-ops are more restrictive than condominiums, but they also offer residents greater say in several aspects of how the property is managed.

The owner of a co-op does not own his or her unit. The co-op is a corporation, complete with a [CORPORATE](#) board of directors, and each resident is a "shareholder." Co-op buyers do not sign a deed. Instead, they purchase shares of the corporation, shares that include a [LEASE](#) granting use of a specific unit. The number of shares owned is based on the size of the unit.

The "mortgage" that one receives when making a co-op purchase is not really a mortgage but rather a loan to purchase shares. To all intents and purposes, however, it functions as a mortgage.

In addition to the selling price for a co-op, there is also a monthly maintenance fee for upkeep of the property. It can include utilities, maintenance and repairs, and property taxes. This fee can range from a small amount to levels higher than mortgage payments. Parts of the maintenance fee may be tax [DEDUCTIBLE](#).

Because they do not own their individual units, co-op owners are generally not allowed to do anything inside their apartments beyond simple maintenance. A co-op owner cannot put in a new kitchen or bathroom or tear down any walls. In this regard, co-op living is very much like apartment living. The positive side of this is that residents are not responsible for making their own repairs; the on-site maintenance crew or superintendent handle those.

Advantages of Condominiums and Co-ops

Why choose to live in a condominium or a co-op over renting or private home ownership? There are a number of reasons, and ultimately the answer depends on a person's circumstances and goals.

Affordability

A renter who wishes to build equity in his or her home but who has no desire to incur the responsibilities of maintaining a home may choose condominium or co-op ownership because it provides many of the same maintenance services as a rental unit would. A single person who wishes to own property but who cannot afford a house may turn to the generally more reasonable condominium or co-op market. Older homeowners who wish to give up what has become a large and unwieldy house but who have no desire to spend their equity on a rental unit often see condominiums or co-ops as an attractive alternative.

Although condominium and co-op owners are responsible for the maintenance in their own units (more so for co-op owners), the comfort of knowing that someone else will do the landscaping, the exterior painting, and the snow removal is often more than enough to make this option more attractive than home ownership.

Stability

Condominiums and co-ops also offer more stability than apartment houses. In years past, people moved into apartment houses and stayed for many years; they would start with a small apartment, move to a larger one in the same building as their family grew, and move back into a smaller one when their children had moved out. Today, most people who live in apartments do not stay long. This may be the result of higher rents, or it may be because apartment houses are often maintained with less than stellar reliability. A condominium or co-op offers a stronger sense of community to residents because they are owners; they are less likely to move after only a few years. Also, because they are owners, they will probably assume more responsibility in making sure the common areas are well-maintained.

Disadvantages of Condominium and Co-op Living

For all their advantages, condominiums also have a number of disadvantages that should make potential buyers weigh their decision carefully.

Ongoing Costs

A condominium or co-op owner has to pay not only a monthly mortgage but also the maintenance fee. In an expensive unit, this can run into thousands of dollars over the course of a year. Granted, some of that is probably tax deductible, and the money goes for maintenance and other common costs. Nevertheless, some people see the combination mortgage/maintenance fee as similar to paying double rent. Thus, the older couple who wants to trade their large house for a small co-op might find the various costs prohibitively expensive when they are all added up.

Because many condominium and co-op buildings are older, converted apartment houses, chances are that maintenance and repair costs will be quite high. For the condominium owner, this means higher repair costs within his or her own unit. For the co-op owner, this means higher monthly fees to pay for repairs throughout the building.

Restrictions

The extent of restrictions in condominiums depends on the layout of the development. If the development consists of free-standing homes or townhouses, residents may have a fair amount of leeway as far as landscaping, for example. For buildings, the restrictions will probably be more comprehensive and more carefully enforced.

Restrictions in co-ops are far more all-encompassing. Co-op residents who wish to sell their unit, or rather, their shares, often find that the co-op [BYLAWS](#) are extremely strict about whom they can sell to. People who fail to meet a minimum income may be ineligible to live in a particular co-op, even if they have enough money to make the purchase. For that matter, co-op apartments in wealthy neighborhoods will sometimes refuse to sell to celebrities, citing their fear that the presence of a celebrity will draw too many fans and other celebrities to the building.

Co-op [SUBLETTING](#) is also subject to significant restrictions. Some co-ops only allow a set number of

subleases per year. Thus, a person who has been transferred to another state will need to seek approval to sell the co-op or to sublet it, and that approval may not be forthcoming.

Particularly in co-ops, the board of directors wields considerable power; often the only way to gain some influence within the development is to join the board. The politics involved in decisionmaking is literally brought home to co-op residents, and many do not enjoy the experience.

Because many people are unwilling to put up with the restrictions found in condominium and co-op communities, it can be much harder to find a buyer to begin with. Condominiums and co-ops do not rise in value the same way houses do, so while they preserve equity they do not build as much as a private home would.

Conversions to Condominiums or Co-ops

It is not uncommon for rental buildings to be converted to condominiums or co-ops; in fact, most of the older buildings that are condominium or co-op developments started out as rentals.

Frequently the first sign that a building's owner is considering a conversion is a series of improvements to the building—new windows, new kitchens and bathrooms, redecorated common space (corridors, lobby). The sponsor of the conversion (usually but not necessarily the owner) will contact all the tenants and give them the opportunity to purchase their own units, usually for a good price. If enough tenants decide to take the sponsor up on the offer, the conversion can go through. Although there is a fairly low minimum number, sponsors like to get as high a percentage of tenants to buy in as possible, because it means more money to pay for upkeep and keep maintenance fees down.

Example: Conversions in New York

In New York City and some of its outlying suburbs, many rental apartment buildings are subject to rent regulation laws that prohibit landlords from raising rents beyond a certain percentage. Buildings constructed before 1974 are subject to rent stabilization, which allows only small increases each time the lease is renewed (every year or every two years). Buildings constructed before 1974 may be protected under rent control laws that further restrict the amount of rental increases. Rent-controlled and rent-stabilized tenants have a [LEGAL RIGHT](#) to have their leases renewed as long as they are paying their rent on time and as long as the apartment is their primary residence. If a rental building is converted to a condominium or co-op, these tenants are still allowed to stay in their apartments.

Clearly for a building seeking a conversion from rental to co-op, it would be important to convince a reasonably high percentage of tenants to buy in. Otherwise, the renters would continue to pay their artificially low rents (they do not have to pay monthly maintenance fees) while shareholders would have to pick up more of the common costs. Since it only requires 15 percent of the current tenants to approve a co-op conversion, this could leave the sponsor of the conversion (often the [LANDLORD](#)) with carrying 85 percent of its units as rentals. (In most cases, apartment house owners will wait until they have a much higher percentage before they proceed with a co-op conversion.)

Not surprisingly, many tenants choose to remain renters because it costs less than buying. For elderly tenants in particular, who have no need for the equity of an owned residence, continuing to rent may make sense.

Rent-controlled apartments are deregulated as soon as the tenant moves out, but rent-stabilized apartments remain stabilized no matter how often they change hands. Some apartment owners have tried to "warehouse"

apartments by not renting stabilized apartments as they become available. The fewer apartments rented when the co-op conversion takes place, the fewer renters the building will have to carry. The practice of warehousing apartments is illegal.

Also illegal is trying to force renters to leave by curtailing services to them or by harassing them. Many co-op boards enact strict regulations in the hope of driving away renters. Some of these restrictions, such as no-pets clauses, may be imposed with the idea that renters with pets would rather leave than give up their companions. While co-op boards have a great deal of latitude when enacting rules or guidelines, those guidelines cannot be unduly unfair or onerous to the renters.

Buying a Condominium or Co-op

People interested in condominium or co-op ownership should pay close attention to a number of factors at each development they visit:

- They should ask about the financial condition of the association or corporation that manages the property. They may request a copy of the latest financial statements and budgets. They can find out about the ratio of owners to renters, the stability of the maintenance fees, and recent unit sales.
- They should find out whether there are any pending lawsuits against the development. Builders, neighbors, and even former owners might have filed suit. If anyone did, they can find out why and find out the outcome.
- They should ask about the bylaws and the restrictions. If they are particularly strict, prospective buyers may not wish to purchase a home there. Even if they have no trouble with the restrictions, potential subsequent buyers might when it comes time to sell later on.
- Prospective buyers should hire an inspector to check the structural condition of the building (including electrical, heat, and plumbing). They should find out the condition of the roof and the common areas. Also, they need to find out about how soundproof the building is.
- Prospective buyers should talk to current or former owners if possible. They may be able to find out from the owners what are the pros and cons of the development in question—what they like and what they wish they could change.

Condominium and co-op ownership is not for everyone. If people think it will meet their needs, however, they will do themselves an enormous favor simply by making a checklist of the items above and being prepared when it comes time to discuss an actual deal.

Additional Resources

The Co-op Bible: Everything You Need to Know About Coops and Condos. Shapiro, Sylvia, St. Martin's Griffin, 1998.

How to Buy a House, Condo, or Co-op. Thomsett, Michael C., and the Editors of Consumer Reports. Consumer Reports Books, 1996.

Keys to Purchasing a Condo or Co-op. Friedman, Jack P., and Jack C. Harris. Barron's Education Series, 2000.

Organizations

National Association of Realtors

P. O. Box 10598

Chicago, IL 60610 USA

Phone: (800) 874-6500

Fax: (312) 329-5960

URL: <http://www.realtor.org>

Primary Contact: Terrence M. McDermott, Chief Executive Officer

Urban Homesteading Assistance Board

120 Wall Street, 20th Floor

New York, NY 10005 USA

Phone: (212) 479-3300

URL: <http://www.uhab.org>

Primary Contact: Andrew Reicher, Executive Director

U. S. Department of Housing and Urban Development (HUD)

451 Seventh Street, SW

Washington, DC 20410 USA

Phone: (202) 708-1112

Fax: (202) 708-1455 (TTY)

URL: <http://www.hud.gov>

Primary Contact: Mel Martinez, HUD Secretary

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