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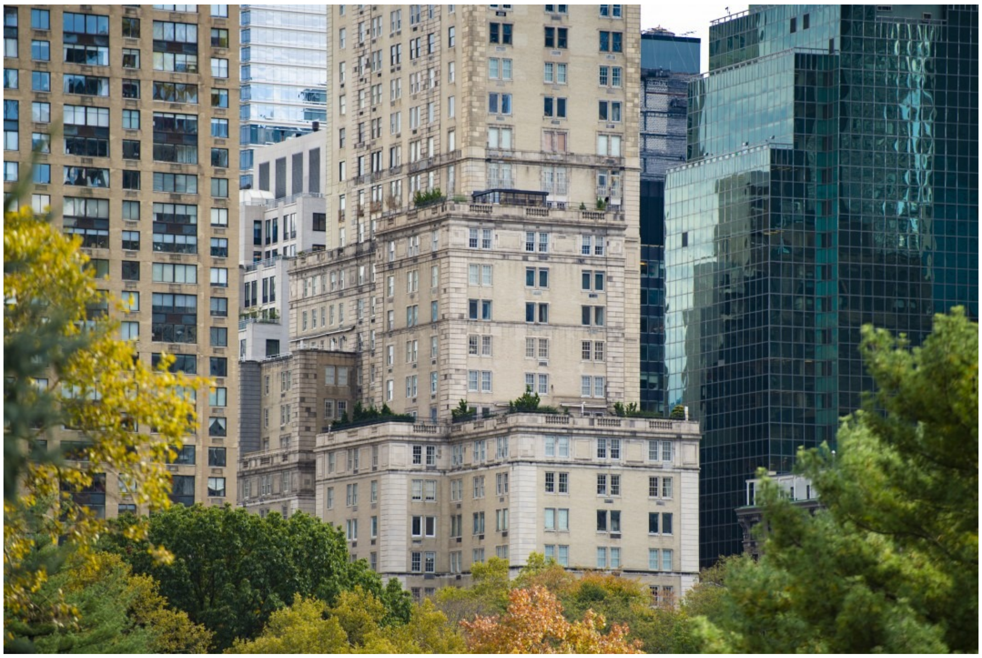
What is the difference between a condo and a co-op?



Condos and co-ops vary not only in price but in the way the building operates from its legal structure to restrictions on financing and subletting. iStock

If you are looking to buy in New York City, but you don't know the city very well, you might not understand the difference between a co-op and condo—or even know that they are in fact very different.

Both types of NYC apartments can look somewhat the same. "You walk into an apartment, the walls look the same, the floors look the same, everything's the same—it's an apartment. You would only know if it is a condo or a co-op if someone told you," says Elizabeth Kee, a broker with CORE.

But there are many important distinctions to be aware of before you buy. The bottom line: Because a condo's ownership structure gives a condo board less power than co-op board, it's easier to buy, sell, and sublet a condo. But all that flexibility comes at a price. Condos typically cost more than co-ops and come with higher closing costs. They also often have higher property taxes, unless you're buying a newer condo that has a temporary tax abatement in place.

For more condo vs. co-op differences, read on. And don't forget to check out Brick Underground's comprehensive How to Buy a New York City Apartment guide.

The legal structure of condos vs. co-ops

If you buy a condo, you get a deed just as you would if you were buying a single-family house.

"You own the tax lot and the four walls of the apartment," says Lisa K. Lippman, a broker with Brown Harris Stevens.

When you buy a condo, you own your place, and your monthly common charges pay for the upkeep of common areas and amenities. Your property tax is paid separately.

A co-op building is structured as a corporation, so instead of receiving a deed when you buy a co-op apartment, you become a shareholder with a proprietary lease that entitles you to occupy your apartment and lays down rules and rights similar to a lease in a rental building. Your monthly maintenance fee pays for the building's operating costs, any underlying mortgage, and importantly (unlike condos) includes your property taxes.

Technically speaking, you're a "tenant" or "shareholder," not an "owner," so if legal problems arise, they're usually decided in accordance with landlord-tenant law.

Condos are often newer (but not necessarily better) than co-ops

Co-op buildings are generally older than condo buildings. Many prewar rental complexes in New York City were converted to co-ops during the 1970s and 1980s as a way of rehabilitating the buildings and creating a new ownership structure. Finding a condo in a building completed before the 1940s is rare—that's not to say they don't exist but they are more difficult to find.

Prewar co-ops are known for their more generous proportions, graceful architectural details, and traditional layouts. Newer condos are known for their souped-up building amenities and modern conveniences within apartments, though room sizes are often smaller.

Co-ops vastly outnumber condos

Real estate listing sites currently show page after page of glittering new condos, giving the impression this type of apartment dominates in New York City.

In fact, the opposite is true. Even with the condo building boom that's taken place over the past decade, co-ops dwarf the number of condos with 74 percent of the inventory in NYC, according to the Rent Guidelines Board's 2019 Housing Supply Report.

Co-ops are more affordable

"Most buyers say they are never going to buy co-ops. They end up buying co-ops," says Kee. One of the reasons for this is because co-ops are typically priced more affordably than condos.

According to Douglas Elliman's latest market report, the median sales price for a studio in a Manhattan co-op building is $440,000. That's compared to $643,333 for a studio in a condo building. Another way of looking at it is the average price per square foot currently runs $1,146 for a co-op and $1,952 for a condo.

This cost difference comes down to several factors, the first being simple supply and demand. There are just more co-ops in the market compared to condo—and in a range of building sizes. (You can learn more here: "Choosing between a big or small co-op building in NYC? Here's what you should ask.")

Another reason for the difference in price is condo buildings are often newer, have modern amenities, and can command higher prices simply because it's easier to buy, finance, sublet and sell a condo.

Condo closing costs are higher

There are taxes and fees associated with buying both co-ops and condos but there are two fees you won't have to pay if you buy a co-op.

The first of these fees is title insurance, a one-time payment covering you if you close the deal and then find there are outstanding liens on the apartment or any issues arising from former owners or open permits. Title insurance for a $1 million condo can be around $4,500.

Title insurance isn't a legal requirement but it is a closing requirement if you buy a condo with help from a bank. A co-op owner doesn't have a deed so there's no title insurance to be paid. A lien search is, however, an option of co-op buyers.

The other cost you need to budget for if you buy a condo rather than a co-op is a mortgage recording tax. This tax applies to real property and as a result, co-ops are exempt. Currently, the tax is 1.925 percent for loans over $500,000 and 1.8 percent for loans under $500,000. (For more information, see "Closing Costs: A Guide for NYC Buyers and Sellers.")

It's easier (and often quicker) to get approved by a condo board than a co-op

Both New York City co-ops and condos require buyers to submit application packages to the building's board. This can involve an unexpected amount of scrutiny that can make buyers uncomfortable.

Co-ops have a reputation of taking this to an extreme, requiring pages of tax returns and financial statements from years past, as well as personal and professional recommendations prior to an interview. The process is designed to ensure you have the reserves to honor your commitment if, for example, you lose your job. In fact, this checkpoint is often cited as one of the reasons NYC has been able to weather past economic downturns relatively unscathed.

In recent years, condo packages have started requiring similar amounts of paperwork and in some cases, even an interview.

"Condos applications can be as in-depth as co-ops and in some cases you may have to provide even more than co-ops," Kee says.

The difference, Lippman says, is "a condo board cannot turn you down." A co-op board can—for any lawful reason, and is not obligated to tell you why you are being rejected.

(The only time you don't need to get a co-op board's approval is if you're buying a sponsor apartment.)

If a condo board is reluctant to accept a buyer, the board has a right of first refusal. This means they can choose to buy the apartment from the seller at the same price. This is extremely rare—something Lippman says is more common in "very sluggish markets" where the apartment price is thought to be too low. If they choose not to exercise this right, they need to issue a waiver.

"Once [a condo board] has the application package, they have to issue the waiver within 30 days," says Lippman. This timeline means condo purchases can move quicker than co-ops, whereas Lippman says, “co-op boards can actually take your package and hold onto it for three or four months and not make a decision on it."

Co-op down payment and financial requirements are usually higher than condos

While financial information you're asked to provide in your application package may be similar for the purchase of a condo or a co-op, a co-op board usually demands much more from you in terms of down payment and financial qualifications.

Most co-op boards require you to provide at least 20-25 percent of the purchase price as the down payment. (In New York City, this is similar to most banks’ requirements, so if you're getting a mortgage to buy a condo, you may need to put that much down anyway.) Some particularly restrictive co-ops may require more—up to 50 percent of the asking price as a down payment.

Co-op boards will also want to see that you have enough "post-closing liquidity"—money left over to pay for your maintenance fees, up to two years in some cases. Although boards can no longer ask you to pay the funds upfront, they may want to see the money is available in your bank account.

“In a co-op, they want to make sure your income is stable, you have reserves left after the down payment, what your work record is, what kind of neighbor you are. It’s really like joining a club,” Lippman says. (Read: "11 tough co-op board interview questions—and how to answer them.")

With a condo, she says, “if you look like a viable purchaser, you don’t have a criminal record, and it seems that you have enough money to buy it, they really don’t care about anything else.”

It's easier to sublet a condo

When you join a members-only club, you can’t just substitute in someone else when you no longer want to attend. The same rule applies to co-ops. Co-op boards generally have strict rules about subletting your apartment.

Each co-op building will have different rules in the proprietary lease but most limit sublets to one or two years in any five- to seven-year period. Just as you were approved by the board when you bought the co-op, your tenant will need board approval. (For more details, check out: "Brick Underground’s best advice on subletting a New York City apartment.")

Renting out your condo is usually easier and less restrictive. You can rent the apartment out for as long as you like, although there may be a minimum requirement of a one year lease. Condo boards cannot turn down your tenant unless the board rents it themselves (though the right of first refusal). Both a co-op and condo board will charge fees when you sublet your apartment, although these can be transferred to the tenant.

It can be easier to renovate in condos (in theory)

Both condos and co-ops have detailed renovation policies and may have certain agreements you are required to sign before apartment upgrades can be authorized.

Most cosmetic finishes like painting won’t require board permission but Kee says it’s a “misconception” that it’s easier to get approval to renovate from a condo board than a co-op. Both require you to use a licensed and insured contractor, to submit your plans to the building architect for review and get board approval. Unlike a co-op board, a condo board cannot block your renovation work, although Kee says they can hold up the process “to the point where you give up because you’re never going to get approval.”

“A co-op is a little more forthcoming and can rule out renovation work for any reason,” says Kee—for example, if the work might compromise the integrity of the building. (For additional intel, see: "What kind of renovations do—and don't—require co-op board approval?")

Co-op boards are often more involved

Condos and co-ops both have boards to create and enforce the building’s rules and help operations run smoothly. In most cases, they are made up of volunteers from the building community who are elected to the board. (You can find out more in "Compelling reasons why you should join your co-op board if you can.")

Co-op boards generally wield more power than condo boards (which tend to be more hands-off in terms of management style). Assuming the board is a good one, this can translate into a co-op being a more neighborly, pleasant community to live in. A co-op board can even go as far as evicting a persistently disruptive shareholder, something a condo board legally cannot do. Another way of looking at it is that a co-op shareholder can be thrown out of the club, while a condo owner can’t.

It's often easier to sell a condo

When it is time to sell your apartment, your buyer will likely face the same scrutiny you did when you moved in.

Condo boards have only the right of first refusal on your apartment sale, while co-op board can go further and reject a sale for any lawful reason—including if they think you could get a better price. This can create problems in fluctuating markets. (For more on this, see "Can my co-op board reject a buyer because the price is too low?")