


CO-OPS & CONDOS


THE DIFFERENCES

An eBook from
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THE MAIN DIFFERENCES BETWEEN CO-OPS & CONDOS

A little history

After the Chicago fire, Illinois enacted legislation that forbade corporations from forming — when their sole purpose was the buying and improving of real estate for speculation. New York developers, on the other hand, not limited to such restrictive legislation, were able to incorporate and develop cooperative ventures that led to the erection of some great buildings. To this day New York has an abundance of co-ops.

But in the early '20s, our real estate market changed, a result of changes in legislation, setting the stage for the luxe market cooperative . Wealthy investors who wanted a "home" for themselves and friends would sell 100% of shares in a building designed to their specifications. Shareholders were Investor tenants . In some cooperatives, some units were leased to non-investors for income and building maintenance costs .

A vast amount of money saw more than 90 cooperatives built in the decade, but the party was over with the foreclosures and bankruptcies of the Great Depression. After World War II, some cooperative were reinvented when they rose from their financial ashes after being repurchased by some of the tenants.

3750 N Lake Shore Drive, Chicago, IL
132 unit cooperative built in 1926,

With housing shortages and a national rent control still in effect, the government entered the picture, big time, and the real estate market really began to change. Congress expanded the FHA's mortgage loan insurance program. When buildings met certain criteria, the feds guaranteed mortgage repayment to the funders. The FHA link brought in a slew of new construction, bolstered by Illinois' condominium legislation in the early 60s which made possible the sale and purchase of individual apartments financed by individual mortgages.. And soon the condo as we know it today became the building of choice for developers . The cooperative failure after the depression didn't encourage a construction revival but it never discouraged co-op unit owners who believe in the ownership type and lifestyle.

1 Ownership

Condo owners own their units. Co-op owners own shares in a corporation whose only asset is the actual building itself—that means all units and common areas. So co-op owners own a share of the corporation rather than any specific piece of real estate and enter into a lease with the corporation to inhabit their unit. And as shareholders they also share in interest tax benefits when the corporation takes a mortgage for capital improvements.

179 E Lake Shore Dr. (Drake Tower), Chicago, IL 66 unit cooperative built,1928-31; Architect: Benjamin Marshall

Benjamin Marshall;

860-880 N Lake Shore Dr., Chicago, IL (The Glass Houses); 259 unit cooperatives built, 1949-51 Architect: Mies van der Rohe;

2 Assessments

Condo owners pay assessments to the association. Co-op owners pay assessments to the corporation . But a co-op assessment includes a monthly payment for the yearly tax bill (see Pg 4). It may also include heat and electricity—the latter prorated according to usage. Both assessments include amounts for building improvements, personnel, repairs, etc.

1235--45 Astor, Chicago, IL
Gold Coast Historic District
Low rise cooperative built,1911
Architect: Andrew Sandegren

3 Real Estate Taxes

Condo owners get individual taxes for their units and are responsible for payment to the county or assessing body. Co-op owners pay property taxes, according to their share ownership, to the corporation which receives one tax bill for the entire building. And when there is a new reassessment, the corporation fights the one tax bill for the entire building. Both condo and co-op owners may claim homeowner and senior exemptions. NOTE: The Co-op unit property taxes are usually included in the assessment, frequently adding 20-25% .

4 Reserves

In Illinois, corporation law does not require a co-op to build sizable reserves, thus, this can be a consideration when buying a unit. However, the corporation may borrow money for capital improvements and offer unit owners extended payment plans. Condos are legally required to have reserves (included in assessments) but they are not always fully funded.

1430 N Lake Shore Dr., Chicago, IL; 23 unit, 24 story Co-op, built in 1920

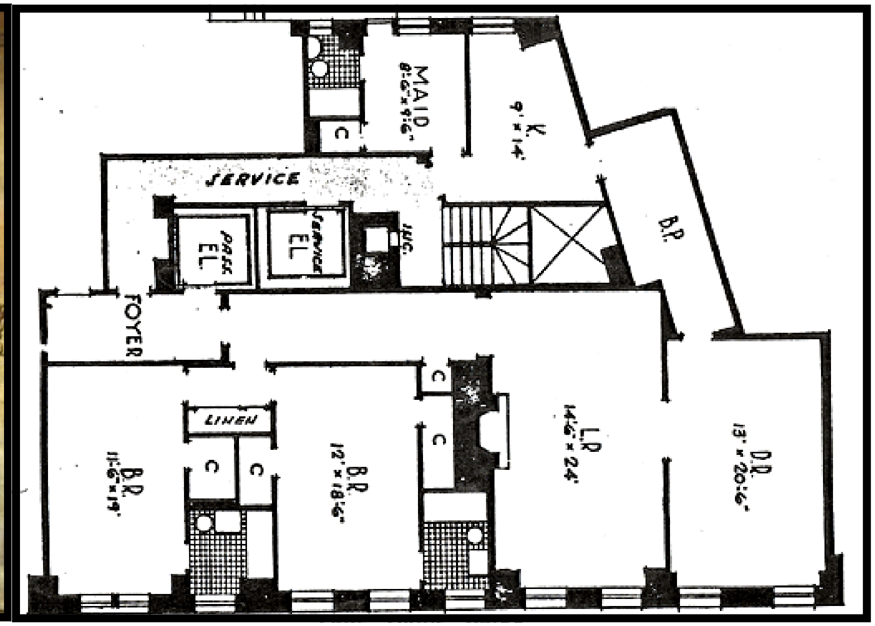
1301 N Astor, Chicago, IL; 11 unit, 13 story Co-op, Built in 1929. Several units occupy a full floor.

But…no matter the type of ownership, unit owners for all building expenditures.

5 Services & Amenities

Co-ops traditionally are high service buildings. Condos, especially the newer ones include a list of amenities, but cost is still a factor. Both types of ownership pay for what they get.

This 1550 sq ft co-op in the Gold Coast, sold for $574/sf in 2011, complete with hand painted gold leaf walls, magnificent wood floors and unobstructed views of Oak Street beach and Lake Michigan.



This 2000 sq ft co-op in Lake view, needing updating sold for $100/sf in 2010; another unit in the same tier, one that had been updated and a few floors higher. sold for $223/sf

6 The price

On the average, you get more bang for your buck with a co-op. The buildings are older; the units, usually larger, most often with traditional and costly features from intricate wood floors to ornate moldings— particularly those co-ops built in the 20s and 30s. And the cost per square foot can be much lower than condo construction.   Why? Co-ops are generally more difficult to buy & sell, harder to finance and most likely, requiring a rehab or updating.   But the architecture, the elegance and the space are often well worth the effort to many buyers.

7 Governance

Top:
1500 Lake Shore Dr
Chicago, IL
58 unit, 24 story co-op
w prkg, built in 1928

Bottom left:
1209 N Astor, Chicago
30 unit, 13 story co-op,
Built in

Bottom right:
1350 N Astor, Chicago,
Il, 47unit, 15 story
co-op (w prkg) built

Condo unit owners elect an association board and provide input, and the majority rules. By-laws and rules/regulations can be changed by the board, when approved by unit owners.

A co-op, has 4 main documents: 1-2,   The By-laws and The House Rules, which can be changed by the board. 3, The Proprietary Lease which is the binding document governing each unit owner can only be changed by a building vote. And 4, the Recognition agreement between the lender and the cooperative corporation sets a course of action for each party if the shareholder defaults on a loan.

However, each co-op has its own governing procedure, so if you are selling or buying a co-op, ask questions and use an attorney who has co-op experience.

9 Financing

It all depends on the co-op if financing is allowed, but credit is critical. Why? When a unit owner misses monthly payments, it affects the corporation's operating expenses and thus the other unit shareholder/owners Co-ops demand stellar credit because down payments can be as little as 10% or none at all—that being the requirement of some co-ops which demand a full cash purchase.

Financing for a co-op, at least in Chicago, is not available at all banks—there are far less lender choices and lenders who do offer co-op financing require a higher minimum credit score for a co-op purchase than is required for a condo purchase.

1448 N Lake Shore Drive, Chicago, IL; 49 unit Co-op, built in 1928.

1335 N Astor, Chicago, IL, 31 unit, 16 story coop; built, 1926

8 Closing Costs

Usually, the closing cost for a co-op is less than that for a condo. Some co-ops have flat closing fees. Most co-ops charge a transfer fee and while some of those transfer fees can be quite pricey, the seller is usually responsible for them. Have an attorney request information regarding such costs and, who is responsible for payment. Also, if you close at the management office rather than a title company (preferred by most co-op managements), you will have to bring multiple cashiers' checks to the closing table as the management company does not act as an escrow agent. If a buyer would rather not tender multiple cashiers' checks, they can close at a title company which allows buyers to send one wire to the title company for the amount owed—however, the convenience may cost a little more. Consult an attorney for the best course of action for the purchase. .

10 Application/Approvals


229 E Lake Shore Dr., Chicago, IL; 20 unit, 11 floor Co-op, built in 1919.

There is an application process for a condo, mostly, to introduce new owners to the building rules and regulations, as well as to the declarations recorded by the developers regarding the condominium's official location and offering plan. In addition to signing acceptance of the documents, the buyer is required to submit a credit report.

For coops,   the process is a bit more complicated; credit reports are just the beginning. Co-op purchasers often are required to provide a statement of assets, personal and professional letters of reference and in some cases, even tax returns. Again each co-op corporation determines the requirements.

After the co-op board reviews the buyer's documents to determine if the purchaser can afford the home, the real estate taxes, assessment fees and any potential capital improvements . After the review. a personal interview is scheduled, after which, the buyer(s) are approved.

CONCLUSIONS & ADDITIONAL RESOURCES

Buying a co-op can be challenging but when credit worthiness is more important than ever, co-ops are ahead of the game.

Like a condo, the cost per square foot for a co-op, can vary based on condition, location and size. And like a condo, there are no guarantees when it comes to resale value, or financial hardships that may visit a buyer or his neighbor affecting a sale price. But smart buying, be it condo or co-op is still considering exactly what you can afford to buy, taxes you can afford to pay, and maintenance fees plus the cost of potential improvements you can live with.

Bank Resources for Co-op mortgages:

PNC MORTGAGE
CITIBANK
NORTHERN TRUST

Attorneys Experienced in Co-op Transactions

JUDY DeANGELIS, 847-233-7303

NEAL ROSS, 312-280-6901

JONATHAN AVEN, 312-251-8777

Co-ops & Condos: the differences

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