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Condo, co-op: Same lifestyle, but rules vary

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People who want the ease of apartment living, but would rather own than rent, face the question: Condo or co-op?

In many ways, they're similar. Both offer freedom from mowing the lawn or fixing the roof; both put you in close proximity to your neighbors.

"It's the same type of lifestyle," said Terri Golden, a real estate agent with Coldwell Banker in Fort Lee.

But there are key differences in the two types of ownership.

In a condo, you own your unit. In a co-op, however, you own shares in a corporation that owns the property. You are entitled to a long-term lease. You deal with a board of directors that sets the rules for the building, including the financial requirements for buying.

Although it's usually cheaper to buy a co-op than a comparable condo, your monthly payments will probably be higher in a co-op because they include your share of the property's underlying mortgage.

Co-ops generally require a bigger down payment and more documentation of your finances, including a credit check. That's because if you can't afford your monthly fee, your neighbors -- your partners in this corporation -- will be stuck with your share.

"Most [co-op] buildings will not allow 90 percent financing," said Terri Golden, a real estate agent with Coldwell Banker in Fort Lee. Many co-ops require a down payment of at least 25 percent, she said. And they typically want your monthly income -- documented by your tax returns -- to be four times your total monthly obligations, including housing costs, student loans, car payments, and alimony or child support payments.

In addition, Golden said, "there are more restrictions on what you can and cannot do."

For example, if you decide later that you want to move and rent out your co-op apartment to a tenant, you probably won't be allowed to.

The good news, of course, is that these restrictions also protect you from the possibility that all your neighbors will become absentee landlords, renting out their units to tenants who might not take such good care of the property.

A lot of buyers shy away from co-ops because they don't really understand them, or they don't want to deal with the

DWELLINGS



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board or the financial requirements. As a result, co-ops are cheaper than condos – especially, according to Golden, when the market slumps, as it has recently.

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"The co-op market is a lower-priced market," said Larry Greenberg, who specializes in the Hackensack condo and co-op market for Mark DeLuca Real Estate in Teaneck. "I think co-ops are a good value."

In Fort Lee, a one-bedroom, 1½-bath co-op at the Century 21 building recently closed for \$295,000, while a comparable condo in the nearby River Edge complex recently sold for \$440,000, said Golden. The co-op has maintenance of \$1,156. The condo has maintenance of \$500 – but it also requires a monthly tax payment of \$500, making the monthly charges similar in the two properties.

Whether you choose a condo or a co-op, real estate lawyer Eric Frizzell of Glen Rock advises you to ask these questions before buying:

- If the property is new, have claims against the developer for construction defects been resolved? If not, the unit owners may face large costs, either to litigate against the developer or to correct problems in the construction.
- Is the condo or co-op board setting aside enough money in a reserve fund to pay for eventual large capital repairs? The roof is going to need to be replaced someday, and you want to make sure the board is building up a fund to make this and other major repairs. Some boards skimp on this because they want to keep the monthly assessments down. That's a problem in the long run.
- When did the board last conduct a capital reserve study? In these studies, engineers inspect all the big-ticket items in the complex to check whether, for example, the roof is going to have to be replaced in five years instead of the 10 that was anticipated. Boards should update these studies every three to five years.
- What is the status of payments in the complex? Are a lot of the homeowners falling behind on their monthly payments?
- Ask to see an audited financial statement.

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