Tips on Buying a Live/Work Coop or Condo Space

Understanding the Difference

From a 4/24/23 presentation by the Sales/Marketing Committee Chair, The Artist Building at 300 Summer Coop Seaport/Fort Point District

300summer.org
Two common questions

1. Why are condo prices so much higher than coop prices?
2. Why are coop fees so much higher than condo (HOA) fees?
Some Definitions

**COOP**
- You buy a **share** in a corporation. The **Transfer Value** or, for a limited equity, the **Maximum Transfer Value** (MTV) is the maximum amount you can “Offer” for the stock price. The “Offer” or “Purchase Price” may be the MTV or lower.
- You own **stock** and a **proprietary lease** for the space.
- The **Coop** is **Landlord/Owner**.
- You are a **Member** (or Tenant, Stockholder, Shareholder). Members jointly own the entire property as Shareholders of the Corporation.

**CONDO OR HOUSE**
- You buy **real property**
- You are **Owner** of your condo unit or house; you own the deed and title, and with condos, hold an interest in the common areas.
What is a Housing Cooperative?

Housing cooperatives are a unique hybrid between a condominium-type association and rental property.

If agents are representing buyers or sellers, they need a basic understanding of coop structure.

LIVING IN A COOP:

- Coop selects Members/buyers
- Members live in a community
- All abide by community rules or guidelines

- Coop may borrow money for underlying mortgage or repair loans if needed.
- Usually primary residences. Strict subletting rules often apply.
Cost Differences: House, Condo, Coop
Based on similar size, location, amenities.

**HOUSE**
- **Price:** Higher
- **Fees:** Owner pays all expenses

**CONDO**
- **Price:** Higher
- **Fees:** HOA*, lower than Coop MAF*, does not include prop. taxes

**COOP**
- **Stock Price:** Lower
- **Fees:**
  - MAF* includes prop. taxes
  - Debt Fee for Coop underlying mortgage (both fees together higher than HOA)

*HOA = Homeowners Association fee; MAF = Members Assessment Fee equals a condo HOA but MAF includes property taxes.
Cost Differences: Condo

- Price is usually much higher than a Coop Stock Transfer Value
- Owner makes monthly payments for first mortgage if not paid with cash (like house owner)
- ONE monthly fee: Homeowners Association Fee (HOA)
- Owner pays property taxes
- May be assessed for large repairs (Capital Needs)
Cost Differences: Coop

- Transfer Value (the price) is usually much lower than a condo
- Monthly share-loan payments (2nd mortgage) for Transfer Value (if not paid in cash)
- Coop monthly fee is typically much higher than condo HOA fee because it includes TWO fees:
  - **Debt Fee**: Coop’s underlying blanket loan (1st mortgage)
  - **Member Assessment Fee** (MAF, like condo HOA)
    - Unlike HOA, MAF includes property taxes
## Recap: Monthly Fees

### COOP
- Share-loan (2nd mortgage) payments for Transfer Value (if not paid with cash)
- Debt Fee for Coop’s underlying blanket loan (1st mortgage)
- MAF (same as HOA fee but MAF includes property taxes). *The Artist Building Coop MAF additionally includes Heat/AC*

### CONDO
- First mortgage payments (if not paid with cash)
- HOA fee
- Property taxes

Mortgage interest on all loans and property taxes are tax-deductible, just like a condo or house.
The Artist Building: CRF

- The Artist Building Coop also added a Capital Reserve Fund (CRF) fee to create a sustainable fund for capital needs and avoid repair loans or assessments.
- Member recoups this fee when selling.

Pamela McKinney, President and a Principal of Byrne McKinney & Associates, Inc., was the consultant who provided this capital reserve funding plan in 2021.
Capital Needs

Major repairs such as window or roof replacement, heating/cooling system, etc.

**COOP BOARDS**

- may borrow money for capital needs with payments shared by Members OR
- may assess Members

**CONDO ASSOCIATIONS**

- assess unit owners for capital needs
Income Restrictions?

- Income restrictions apply when buying an affordable housing condo or house in Boston, established by the BPDA (Boston Planning and Development Agency). AMI = Area Median Income

- Artist-owned coops do not have income limits or require BRA Certification.
2023 Example: $618,642 Coop vs Condo Sale

COOP SPACE (Artist Building)

- **Size:** 1354 sq ft
- **Price:**
  - $400,960 MTV (cash or share loan)
  - $218,682 Balance on Coop Blanket Loan paid by Member’s $1193 Monthly Debt fee
  - Total = $618,642

CONDO UNIT (hypothetical)

- **Size:** 450-650 sq ft in Boston area
- **Price:** ~$618,642, paid by cash or first mortgage

(A 1354 sq ft condo in Seaport/Fort Point District is $1-2 million)
Three monthly coop fees (most coops have only first two):

1. **$1193 Debt Fee*** (coop’s underlying blanket mortgage, each member pays their portion based on space’s sq ft)

2. **$918 Member Assessment Fee** (MAF includes all that a Condo HOA includes plus property taxes and in this coop, heat/AC)

3. **Capital Reserve Fund (CRF) Fee*** (goal is to avoid assessments or additional bank loans for large repairs)

**TOTAL: $2447**

*Debt Fee (minus interest) and CRF fees are recouped when a Member sells along with most of Transfer Value paid.
More About Coops

● **SUBLETTING:**
  ○ Most coops restrict subletting to keep community character.
  ○ Coop bank and insurance company do not want absentee owners.

● **LIMITED EQUITY:**
  ○ Some coops (including the Artist Building) have a formula to keep prices lower than market rate. Sellers receive most of their equity back.
  
  Non-limited equity is market rate. If renting, no equity is recouped.

● **PROPERTY TAX REFUND:**
  ○ Members receive a property tax refund.
More About Coops *(cont’d)*

- **BUYING/SELLING:**
  - The coop corporation owns the land and building, selects the buyer
  - Improvements may be included in the MTV.
  - Most coops do not permit members to hold interest in more than one share certificate. One vote per share (per space).
  - Coops usually not good option for investors since may have restrictions on sale price (i.e., limited-equity coops). Best for buyers who wish to occupy the property as their primary residence.
Coop vs Condo Association Government

COOPERATIVES (CORPORATIONS):
- Have a governing board of elected residents, even if a management company is hired.
- Member owns a share (stock) in the coop corporation and a Proprietary Lease, setting forth terms and rules of residency.
- Member adheres to Coop Bylaws, Proprietary Lease, Rules and Regulations.

CONDO ASSOCIATIONS:
- Have a governing board of elected residents, even if a management company is hired.
- Owner owns deed and title to space.
- Owner adheres to Condo Association Bylaws, Rules and Regulations.
The Artist Building

MEMBERS

○ Visual artist building—looks for visual artist members as stockholders

○ One Artist-Member and one Non-Artist Member may have names on stock and Proprietary Lease.

○ Non-Artist Member has right of survivorship. Name must be on stock. Name does not have to be on the stock to live with Artist-Member, but no rights of survivorship. Designated heirs may inherit from the sale.
The Artist Building *(cont’d)*

**BUYING/SELLING**

- Interested buyers submit an application with references.
- Artist Membership Committee (AMC) reviews applications, holds interviews, recommends buyer to board. BRA certification not required.
- The Artist Building assists with sales in first 30 days, more if agreed.
- The AMC maintains an Applicant Pool of approved visual artists.
- Seller may engage an agent anytime, 5% realtor’s fee on Transfer Value.
- Coop has right of first refusal to purchase. Board may waive.
Comparison of two Coops in Fort Point
based on similar size spaces

249 A Street Coop
- Maximum Transfer Value price is higher than the Artist Building
- Fees are lower than Artist Building (2 coop fees: MAF + Debt Fee).

The Artist Building Coop
- MTV is lower than 249 A Street
- Added a 3rd monthly fee besides Debt Fee and MAF: Capital Reserve Fund fee, to avoid assessments or more repair loans (3 coop fees: MAF + Debt Fee + CRF).
The Pros and Cons of Coops

**COOP PROS:**

- Community
- Mostly owner-occupied
- Member Stockholders can borrow money together
- Members recoup most of equity when selling
- Coop board selects membership
- Coop may assist to find buyer

**COOP CONS:**

- Seller does not choose buyer
- Restrictions on subletting/rentals
- Not investment property
- Coop mortgage or loans depend on all members paying their monthly portion
The Pros and Cons of Condos

**CONDO PROS:**
- can be investment
- seller can choose own buyer with no restrictions
- can own as rental property

**CONDO CONS:**
- no restrictions on who may buy
- rentals can be problematic as neighbors
- up to seller to find a buyer without association help
- special assessments common
Engage a real estate attorney before signing a P&S for any property

You, your attorney or agent, if applicable, should ask for the following:

- Last Annual Meeting Minutes and Budget
- Capital Needs Report
- Amount in Capital Needs Reserves
- Access to by-laws and other governing docs
- The option to have a professional (contractor, etc.) inspect the space.
Typical requirements for Coop or Condo loans

- Minimum down payment is 10%
- Minimum credit score is 680
- 15-year and 30-year fixed mortgages
- 30-year mortgage is about 6.7% April 2023 (always check)
- Maximum debt to income ratio is 43%

- The Artist Building is offered Transfer Value share-loans by National Cooperative Bank (NCB).
- Email sales@300summer.org for contact info of NCB share-loan officer if you wish to ask what amount you might qualify for.
QUESTIONS?

300summer.org
sales@300summer.org