Condo or co-op? What's the difference?

By Wayne Grover • Bankrate.com

Gotten to the point where you just can't keep up with maintaining that single family home? Or maybe your lifestyle is so busy and exciting there's no room in your life for all that stuff.

If mowing lawns, trimming shrubs, shoveling walks, cleaning gutters, painting and repairing the roof make you cringe, a condo or co-op may be right up your alley.

"Millions of baby boomers are looking for alternative living styles that will let them ease into retirement or just simplify their lives," says John York, a West Palm Beach CPA who has prepared tax returns for condo and co-op owners for more than 16 years.

"By purchasing either a condo or co-op, you still enjoy some tax relief and property appreciation, while someone else cuts the grass and takes care of the pool and grounds. But there's a price attached to it, both in dollars and your sense of independence."

The day-to-day life in a condo or a co-op is much the same and the typical resident usually wouldn't notice any difference. However, there are critical distinctions and what you don't know could cost you money and lots of aggravation.

David St. John, a Florida condominium attorney, says, "There are significant differences between a condominium and a cooperative, but each is considered a common interest development or CID. The terms 'co-op' and 'cooperative,' are short for 'cooperative housing project.' Cooperatives were in existence and common before the condominium scheme of ownership was fully developed in the United States. They were especially common in New York City and the northeast."

In a cooperative says St. John, an attorney whose firm represents more than 600 condominium, cooperative, and homeowner associations, the building containing the residential units or apartments is owned by a 'cooperative housing corporation.'

"In a condominium, each unit owner owns an individual apartment in fee simple. In addition, the buyer owns an undivided interest in the common elements such as the exterior walls, roof, pool and other recreational areas."

Both condo and co-op owners have monthly maintenance fees to pay, but they can vary, depending on what expenses the fee covers.

"These monthly fees can be significant and should be taken into account when figuring your ability to pay the mortgage or co-op payment," adds York.

"As a practical matter, there is no significant advantage or disadvantage to a cooperative vs. a condominium ownership.

"There are pros and cons with both condo and co-op community living," adds York. "The good part for both is that most of the outside work is done under a contract let by the condo or co-op board of directors. Each unit pays a monthly fee for these services and many associations provide all outside maintenance, including painting, along with water, sewer and cable or satellite TV. Insurance to cover damage to the buildings and grounds -- but not the contents of each unit -- is also standard.

"The downside is that the individual cannot cut back on these expenses if times get tough. Owners on a fixed income may find these monthly fees strain their budget. Any home requires a certain amount of maintenance and if you can't or won't do it yourself, you have to pay someone else to do it. But paying for someone else to do it is generally more expensive."

Here's a look at the key differences between condos and co-ops to help you decide which may be best for you.

Form of ownership: The key difference between a condo and a co-op. A condominium owner actually owns the apartment in fee simple, like any other homeowner, and owns an undivided interest in the common areas like parking lots, recreations areas, lobbies and hallways.

In a cooperative apartment complex you don't actually own any real estate. Rather, you own shares in a not-for-profit corporation. As a shareholder you get the right to lease space in the building. The corporation owns the common areas. The effects of this are varied. Real property, for example, descends to your heirs while the co-op's tenant-stockholder's shares pass as personalty to your personal representative and may be subject to securities regulations. Generally, a condo is considered real property and a cooperative is considered intangible personal property.

Property taxes: Because condos are owned individually, they appear in the property tax rolls as separate entities and, accordingly, individual owners are taxed separately.

The entire property co-op is owned by the corporation, so it appears on the tax rolls as a single piece of property. The corporation pays the property taxes and passes along the cost to the tenant-shareholders, usually as part of the monthly maintenance fee.

Property taxes generally run lower in co-ops than in condos. That again goes back to the form of ownership. When condos are resold as separate entities, the appraisals and higher sales prices are recorded individually. This has the effect of producing higher assessed values and consequently, higher property taxes. Co-ops -- as sales of stock -- are not recorded at all and the only way a sale could be reflected in tax rolls is if the entire piece of property were sold, which is rare. Therefore, the rising value of the property usually lags in terms of assessed value and corresponding tax bills.

Financing: Generally speaking, there are two issues of financing when speaking about cooperatives. First, there is the underlying mortgage -- or blanket mortgage or master mortgage or corporate mortgage -- that funded either the original construction or conversion of rental apartments to a co-op form of ownership. Payments on that mortgage are paid by the corporation and then are passed along in the monthly maintenance fee to the tenant-shareholders. Secondly, there is the matter of whether the tenant-shareholder had enough cash to buy into the building or if he had to borrow the money.

Attorney St. John points out that since there is no fee simple ownership of the unit, it is sometimes difficult to obtain financing because the security for the loan is the resident's shares in the corporation. Many lenders will not lend money on a co-op at all. Consequently, most co-ops have relationships with a few "approved" lenders who will finance sales. But that means those lenders have an actual stake in the building and often demand that they have a voice in how the corporation is run. These lenders also generally offer far fewer mortgage options, normally require larger down payments and charge higher interest rates.

Other important points: Most co-op owners cannot get a home equity loan or line of credit and in a co-op each individual is dependent on the solvency of the entire project. If the corporation were to go bankrupt, all shareholders would feel the pinch. Individual condo owners are responsible only for mortgage debt and taxes solely on his property.

Federal tax deductions: In the condo situation, each individual is able, easily, to deduct payments made for mortgage interest and property taxes if he resides in the unit and further deductions for such things as depreciation and maintenance if the condo is used as a rental property. The co-op tenant-shareholder can only easily deduct his proportionate share of the property taxes and interest on the underlying mortgage. If other monies were borrowed to finance the actual purchase of the tenant-shareholder rights, deductibility depends on several different factors and is not done as easily.

Monthly fees: Maintenance fees, paid usually on a monthly or quarterly basis, generally are significantly higher in a cooperative because the corporation is collecting mortgage and property tax payments from each shareholder in addition to the periodic assessment for things like lawn care, pool cleaning, security and insurance. The corporation also frequently includes all utilities.

Co-ops have an advantage when it comes to special, costly repair or capital improvement projects, because they can borrow funds, adding to the amount of the blanket mortgage. The shareholders then pay off the cost of the project in their monthly fees. Condos cannot borrow money as an entity and therefore unit owners often face large assessments for similar projects.

Ownership Transfer: One of the good things about not being considered real estate is when the lease rights to a unit in a co-op change hands (because a seller sold his stock shares to a buyer) there is much less in the way of state and local taxes on the transaction and far less in settlement costs because there's no appraisal, survey or title work to be done. This also comes in handy for celebrities who want to keep their address and purchase price hidden from the public. Again, because it's a transfer of shares and not real estate, the transfer is not recorded in any public place.

Powers of the board: Despite the fact that many condo associations contend that they are empowered to either approve or disapprove the transfer of ownership, the reality is that they have almost no power at all. Co-ops, on the other hand have the right to approve or deny the sale of shares on the basis, for example, of the buyer's perceived inability to make the payments. They can also block the sale to celebrities; for example, who they feel may disturb the peace and quiet of other shareholders. Cooperatives, of course, are bound by federal fair housing laws and cannot discriminate against buyers due to race, religion, sex, nationality, etc., but they can -- and do -- choose people based on financial resources and criminal background. Condos cannot exercise that kind of control.

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