Why Buy a Coop?
By Christina B. Farnsworth

Washington DC is noted for its cooperatives or coops. These are often beautifully maintained, classic, historic buildings that pre-date New York's 1946 Condominium Act. What is a coop? How does it differ from a condo? How does one compare the two forms of ownership? Here are some questions and answers.

1. **What's the legal difference between coops and condos?**

Coops came before condos as a way to own and occupy space within a building.

At the turn of the 19th century when residents wanted to own the apartments in which they lived, the legal system had no definition for an individual residence within a larger building. Historically, "real estate" included a building and the land on which it sat. How was an individual able to own "property" that didn't touch the land? "Property" that essentially hovered in the air?

To get around this impasse some wealthy individuals built or purchased hotels, then lived in them while renting out the space they didn't personally occupy. Chicago's Palmer House is one example, of which there really was a Mrs. Palmer. She kept her Renoirs under her bed, but I digress.

Imagine a building as a stack of boxes. Residents of individual boxes within the stack could be shareholders in the corporation that owned the entire stack. Shares in the corporation could be (and in fact are) apportioned among residents by the size of the individual boxes. Eureka! The legal system now recognized Cooperatives.

Coops are very common along the Eastern US seaboard, especially in residential buildings built prior to World War II. In 1946, legislation acknowledging what we now call "air rights" created the condominium or condo, a method to legally un-entangle individually owned spaces within a building.

Tax assessors really liked the condo method of ownership because it collected individual real estate taxes for each unit. Taxing units individually allowed tax assessments to rise each time a condo changed hands for a profit. Individual condo taxes brought in much more tax revenue than the taxes paid by the cooperative building corporations which owned (but never, ever sold) buildings owned and occupied by shareholders.

Condos, it became evident, benefited everyone except the consumer. Municipalities make more in taxes and in transfer fees. The consumer also spends more out of pocket every month compared to monthly coop expenses.

Coop closing costs are also much lower than condos, because municipalities soon discovered transfer taxes. Condos generated transfer taxes when re-sold. Coops don't incur transfer taxes because shares, not real estate, change hands.

To sum up, the major differences between coops and condos are in the definition of ownership, shares versus deeds, and the assessment of taxation and transfer fees, which are in general much higher for condos.

2. **And what about taxes?**

Coops are the clear winners in taxation.

Coop buyers avoid some closing costs and pay no transfer fees, which often cost condo purchasers thousands of dollars.

In a coop, real estate taxes are part of the inclusive monthly coop fee and may be just $5 to $10 a month.

A true “apples to apples” monthly cost comparison adds the cost of the condo's real estate taxes and monthly fees together.

In a condo, real estate taxes are each owner's individual responsibility, over and above the monthly condo fee. Real estate taxes even on the smallest condos are typically $1,200 to $1,800 annually – which is really a $100 to $150 (or more) hit every month.

The condo owner's combined monthly real estate tax and the condo fee will usually be a lot higher than the coop shareholder's all inclusive monthly fee. And condo owners can expect their real estate taxes to rise quickly because taxes also track sales prices for comparable units. If just one condo in a building sells for a profit, every owner's real estate taxes will also rise. High real estate taxes have chased more than one condo owner out of a home he or she loved.

DC law limits real estate tax increases on coops. Because it is shares not deeds changing hands, coop sales do not trigger tax increases.

3. **What about getting a mortgage?**

It's equally easy to get a mortgage for a coop as a condo. Bank of America, CitiBank and Wells Fargo are among the many financial institutions eager to make fair and affordable coop mortgage loans.

And coop buyers can typically qualify for larger mortgages, since the condo's higher individualized real estate taxes are part of what the mortgage-company considers in assessing the mortgage amount for which the borrower is eligible.

Not only can the coop buyer qualify for a higher loan, out of pocket expenses will be lower at closing and lower every month because coop fees include the building’s real estate taxes.

4. **Ok, coop owners pay lower taxes. What are the other economic differences between coop and condo?**

Savvy purchasers know all about the financial advantages of coops' “its all-included" expense structure.

Coop fees include taxes, and everything including reserves and services. Some coops even include high-speed Internet as part of the fee.

Uninformed potential buyers often don’t understand what coops are, and often miss good opportunities because they fail to properly analyze the long-term effects of the transaction. Not understanding what a coop is creates fear and sometimes avoidance. Others have heard the stories of New York coop boards rejecting famous celebrities and think that applies to all coops.

In truth, potential coop buyers are almost never rejected. Coop boards do ask potential shareholders to fill out some forms and be reviewed by the board. This simple procedure helps new residents become acquainted with their neighbors and the board – that’s another good thing.

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