

# The New York COOPERATOR

B U Y I N G & S E L L I N G

## Look Before You Leap How to Evaluate an Apartment Before You Buy

BY ED SERKEN

If you've been apartment shopping, you may think you know everything there is to know about the unit you've got your eye on. The price is right, the space is in excellent shape and there's room to spare. Generally, you get a good feeling every time you step through the door. But hold on before signing that contract, because a good feeling is not enough. There are a number of factors you should consider before committing yourself to the purchase of a co-op or condo. Buying an apartment is not the same as buying a home; rather than just a place to live, an apartment is part of a community. Everything is integrated in a co-op or condo, from the building's finances to its physical condition. Thus, the more you know about both, as well as the type of people who inhabit the building, the better off you'll be when it comes to making the right decision on which apartment to buy.

### Ask the right Questions

"The only way to begin the process of looking for a co-op or condo is to ask the right questions," says Chris Thomas, vice president of the Brooklyn offices of William B. May, a real estate brokerage firm. "When you have the answers, you can home in on any trouble spots." Before you allow yourself to fall in love with the views or the pre-war details, take a look at the basics. "If the building has a higher maintenance than the other ones you've seen, ask why," advises Thomas. Find out if any major renovations are planned: look over the financials, meet building residents and find out how they like living there.

When Stephanie Kovner, a first-time buyer, started looking at apartments, she gradually got a feel for the market and what questions she should ask. Although she didn't meet with any sellers, she did see a lot of listing agents to whom she addressed her inquiries. "I would ask them what they knew about the building in terms of stability," she explains. "Were they selling a lot of apartments in the building? What about renovations? Anything coming up or planned for the future? I wanted to know the philosophy of the building on a number of different things, including assessments and

maintenance charges."

Once she had narrowed it down to one favorite, she began to delve deeper. "The listing agent provided me with all the information I needed, like the financial statements and prospectus for the building. He was very helpful," says Kovner. In addition, the managing agent was prompt in answering all her questions and gave detailed information on the stability of the building.

It was an altogether different story for a woman researching an East 70's co-op. "The broker I was dealing with wasn't forthcoming and I found out that there were a number of things he wasn't telling me," she explains. For example, one of the things she was concerned about was noise pollution and construction going on in the neighborhood. When she asked the broker, he assured her there was none, but she discovered otherwise when she hired Bold Property Information Systems, Inc. to do a Property Risk Report for her on the building. Bold, a five-year-old company that works with banks, attorneys and prospective buyers in researching all aspects of a building, can help buyers do their research.

When Gail Fernandez was looking to buy, she had to contend with a listing agent who didn't seem to care if she bought or not. "The agent wasn't very helpful at all," she says. "He wasn't very encouraging in his description of the place over the phone. I almost didn't go look at the apartment and when I did, he didn't have a floorplan for me. He didn't answer any of my questions. He didn't even seem to care if I liked the apartment or not." In a case like this, buyers need to reach out to other sources for the information they need.

### Ferretting Out Financials

Reading over the financial statements is vital to discovering the building's financial stability. According to Jody LaMonte, a residential broker and vice president with The Corcoran Group, "Looking over the statements for the past three years will give the buyer an idea how monies are being spent for the building, the status of the reserve fund, the salary of the building's employees and any ongoing maintenance expenses. It will also tell you about the underlying mortgage: When it's due, what the rate is and the amount." If you're not sure that the information you're getting is correct, there are ways to check the building's underlying mortgage on your own. Your local Business Library has on microfiche every recorded mortgage. By going there and telling the front desk what address you're interested in, you can locate the Reddi Data microfiche that contains the mortgage history.

Another very important thing to look at is the percentage of sponsor-owned units in the building. Erich Gonchar, an attorney with Hall, Dickler, Kent, Kent, Friedman and Wood, cautions, "Lenders generally will not provide a loan to purchasers if there are numerous sponsor-owned apartments. The reason behind this is that many sponsors who owned apartments have defaulted on payment in their maintenance expenses, causing these additional expenses to be passed onto the shareholders in the building." Ask the managing agent to provide this information.

J. Henry Haggerty, director of operations for Bold, adds that his firm "can validate any information provided by the managing agent or

broker. The potential purchaser could either go to the Attorney General and wait six weeks to find out if the information they got is correct, or come to us and we'll have it for them in two days."

When looking at the maintenance charges, find out if there are any tax abatements in place and when they expire. An expiring J-51 tax abatement, for example, can mean a significant increase in maintenance.

"It doesn't mean the buyer should shy away, but they should make an offer that reflects the fact that the exemptions will be over soon," says Thomas. Find out through the seller or managing agent what the building's general policy toward assessments is, he advises. "Most sellers will be aware of assessments and will have to come clean if asked directly. Your attorney could also work language into the purchasing agreement that states there will be no assessments within 12 months of the sale," he adds.

Also be sure to investigate the state of the reserve fund. Stephen Beer, a certified public accountant with Czarnowski & Beer, says, "You might think a high reserve fund is enough, say \$100,000 in reserve. If there have been electrical and other maintenance upgrades in recent years, then yes, it might be enough. If that type of work has not been done, however, the board might have special assessments coming up, borrow against the building to pay for them and then raise the maintenance to cover it."

Thomas also suggests that buyers ask the seller straight out if there are any forms of pending litigation against the building or its units. "It's difficult to research this part if no judgments were rendered, but cover yourself by asking the seller and make it a condition of sale that nothing is pending," says Thomas.

### Give the Building a Physical

"Another way to do some research is to ask to see the prospectus. Within these important documents you'll find the engineer's report, which many brokers agree is very helpful in determining the physical condition of the building. The engineer's report is usually based on a thorough examination of all maintenance



Drop in on the building and check out the lobby to get a feel for the atmosphere and the residents.

## EVALUATE

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aspects of the building, from boiler to windows. The owner of the co-op should have one, but even if he doesn't, it should be on file with the Attorney General's office, and can be obtained through your broker.

Dennis Greenstein, a partner with the law firm of Haas, Greenstein and Cohen, emphasizes the importance of reviewing the minutes of several board meetings. "They can tell you a lot: Are there going to be any renovations done soon? Are there any problems with the building now? All of this can be revealed in the way the board meets and talks. Are they saying that physical problems are being resolved or do they keep coming up? You want to know this." Anita Peron, a spokesperson for The Corcoran Group, a real estate brokerage firm, agrees: "If anything's coming up, like multi-million dollar renovations, it'll be in the board's minutes."

### Check Out the Neighborhood

Loss of light and major alterations to the area surrounding the property are also considerations affecting an apartment's value. "Many buyers are interested in finding out if anything is going up next to the building they're looking at," says Haggerty. "They can lose a lot of light if a bigger building goes up across from theirs, that's why we keep track of empty lots and any construction going on." Bold's researchers travel to over 100 city, state and federal agencies, such as the Department of Buildings, gathering facts. In addition, over 50 types of newspapers are reviewed for any pertinent statements relating to real estate, such as empty lots or proposed new construction projects. All of this information is transferred to a computer database and when someone orders a report, it's a matter of punching the address in and collecting the data.

"People are very surprised to find out they thought they knew everything and didn't," adds Haggerty. "There are some things you just can't know about an apartment. You might have seen the building in the daytime, or at night...but not at four in the morning, which is when the all-night disco down the block starts up!" The Property Risk Report includes such things as noise pollution and any potential problems the buyer might encounter from the neighborhood, like an all-night club or a high crime ratio.

### Meet the Neighbors

The managing agent can usually arrange a meeting for the buyer with the board members. That is what Hernandez did when she got nowhere

with her real estate broker. Through the managing agent, she got phone numbers of board members and contacted them. "Meeting with the board members helped me make my decision," she asserts. Another way to get an idea of the residents is simply to come half an hour early the next time you visit the apartment, sit in the lobby and watch the people who come and go. LaMonte says that looking over the lobby can also give the prospective purchaser a way to see what the building is like. "If the condition of the lobby is not up to par, it can mean one of two things," she says. "One, they haven't gotten around to upgrading it, or two, the building has a lack of funds."

Talking to neighbors is also a plus. Ask them how they like living in the apartment. Anita Peron of The Corcoran Group sees "trade ups" as a good sign for the building. "If residents tell you that people in the building, instead of moving out, are purchasing bigger apartments because they love living there, then you know something is right," she explains.

Stephanie Kovner decided to find out who her potential neighbors would be by contacting someone on the board. "She raved about how great the building was," she recalls. Kovner also talked to the doorman to get a feel for the place.

### Knowledgeable Professionals

Be sure to consult with an attorney and an accountant familiar with co-ops and condos before signing any deals. Aaron Danzig, an attorney with the firm Baer Marks and Upham warns, "You want to make sure it's in the contract what is staying with the apartment after it's been sold. If not, you could walk in on the day of closing and find the chandeliers ripped out and the washing machine and dryers you saw before, now gone!"

Your accountant can be helpful in assessing not only the financial condition of the building, but what kind of impact ownership will have on your personal finances. If there are any questions about the physical condition of the building, you may also want to consult an engineer and/or an architect to review to the building engineer's report.

The best approach when looking to buy is to rely on a broad range of trained professionals, from a real estate broker to the managing agents of the various buildings you look at, to an accountant and attorney and other independent consultants. Such precautions will protect your interests and help you find an apartment that not only suits your taste, but will also turn out to be a peach instead of a lemon. ■

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