



RESIDENTIAL BROKERAGE

Understanding co-ops can help you make the best home-buying decision

By Dean Cottrill

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If you've been in the market for a home in the Washington, D.C. area, chances are you've run across some listings for co-ops. It's also possible that, like many people, you might not be exactly sure what a co-op is – which may have turned you away from considering them. The good news is that co-ops are fairly easy to understand, and taking a minute to learn about them can help you feel more comfortable with all of your housing options so you can make the best buying decision.

So, what is a co-op? A co-op, or housing cooperative, is a residential building that's owned by a cooperative corporation, usually non-profit. The corporation owns the building, land, residential units and all common areas. When you purchase a co-op, you're not purchasing your individual unit – you're buying shares of the corporation. Your ownership stake gives you leasing privileges allowing you to occupy a specific unit in the building, as well as membership in the co-op association. The shares you own rise in value along with the housing market.

Though most common in New York City, co-ops are found throughout the D.C. metro area – The Watergate being perhaps the most famous. In 2015, there were 777 sales of co-ops in Washington, D.C., Montgomery County, Prince George's County, Alexandria City, Arlington and Fairfax combined, totaling \$254 million in sales volume and covering every price point, from entry level to ultra-luxury*.

Co-ops used to be a bit of a tough sell in Washington. For one thing, lenders were reluctant to approve financing because co-ops require something known as a "share loan" instead of a traditional mortgage. The market has opened up, though, and the money to finance co-ops is now available and attainable.

Home buyers were (and sometimes still are) intimidated by co-ops, as well. For the most part, that's simply because they're not as familiar with them as they are with other types of residential properties. They might expect co-ops to operate like condos and be turned off by higher monthly fees, or they may think they're too complex. Co-ops are actually pretty straightforward, though, and can offer home buyers some financial advantages.

Co-op owners must pay a "maintenance fee" to the association, similar to condo fees. Co-op fees tend to be higher, though, because they include a share of the mortgage and property taxes on the building, as well as maintenance, amenities and sometimes utilities. The owner's proportionate share of mortgage interest and property taxes are usually tax deductible, which helps offset the higher fee.

However, co-op owners don't receive a separate property tax bill. Also of note is that, in D.C., property taxes on co-ops are assessed on a smaller percentage of their appraised value than condos.

Another thing that makes co-ops unique is their ownership restrictions. Prospective buyers must interview with and be approved by the co-op's board of directors, which is an elected group of current co-op owners. The board can refuse to sell to anyone who doesn't meet their financial criteria or would be unable to abide by the association's rules. (Like any other form of housing, co-ops must abide by Fair Housing laws, and cannot discriminate against prospective buyers based on state and federal protected class status, like age, race, religion, disability, gender or familial status.)

While the interview process may seem unnecessarily restrictive, it's designed to protect property values and help ensure a positive living environment for all residents. Because the owners have been thoroughly financially vetted based on stringent requirements, co-ops are often much less likely to end up in a short sale or foreclosure, which helps maintain values even in down markets. And while you may have heard horror stories about co-op board approvals, the vast majority of D.C. co-ops aren't overly restrictive and the process is painless.

Like any other form of housing, there are pros and cons to owning a co-op. Before you make a decision, it's a good idea to check with a financial advisor to see which housing option makes the most sense for you and your future goals.

**Based on closed sales data from Metropolitan Regional Information Systems, Inc. for co-ops in Washington, D.C., Alexandria City, Arlington, Fairfax County, Fairfax City, Montgomery County and Prince George's County in all price ranges as reported on July 22, 2016, for the period of Jan. 1, 2015-Dec. 31, 2015. Data deemed reliable but not guaranteed.*