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## **The Skinny on Closing Costs**



Both buyer and seller incur a number of costs on the way to concluding an apartment transaction. Here's a summary of the costs to be incurred by each party when an apartment is sold:

### **Purchase Application and Other Managing Agent Related Fees**

The gatekeeper for most New York City transactions, is the managing agent for the particular co-op or condominium involved in the sale. Managing agents process the application and forward copies of the application to each board member. Managing agents charge fees to one or both parties in connection with the application and those fees start at \$500 for an application and go up from there. There are also fees charged if a purchaser is financing a portion of the transaction, and fees will also be collected as a deposit (sometimes refundable, sometimes not), for moving in and out of the building. For a greater understanding of how managing agents work, see "The Managing Agent."

### **The Flip Tax**

In some buildings, the sale of an apartment also generates a "flip tax" which is collected by the cooperative corporation or condominium at closing. This cost is usually 1% to 3% of the purchase price and is generally paid by seller. A few buildings, however, do require the purchaser to pay this cost. In any event, who ultimately pays the flip tax is often a point of negotiation, particularly in a stressed out real estate market.

### **New York City and New York State Transfer Taxes**

When purchasing a co-op or condo, transfer taxes are payable to both New York City and New York State. These taxes, which range from 1% to 1.425% for New York City and \$2 for each \$500 of consideration for New York State, are generally paid by the seller. This point can be negotiated, but transfer taxes are rarely paid by the purchaser unless the purchase is an original sale from a sponsor.

### **The "Mansion Tax"**

If you are fortunate enough to purchase an apartment for \$1,000,000 or more, as purchaser, you will be obligated to pay what is affectionately known as the "Mansion Tax." This cost adds 1% of the purchase price to your closing costs (e.g., a \$2,000,000 purchase price equals a \$20,000 Mansion Tax). Congratulations!

### **Legal Fees**

Legal fees for residential transactions vary widely. Sometimes fees are fixed and sometimes not. In a down economy, downsized attorneys turn to real estate closings to survive, so beware of bottom feeders. Even small transactions (in terms of price) can get complicated very quickly. The quality and experience of an attorney usually falls into the category of "you get what you pay for". Make sure your attorney is practicing law and not just processing another file on his or her way to something more interesting. Transactions such as estate sales, purchases by unmarried couples requiring co-ownership agreements and foreclosure or bank work-out sales, transactions that require extensive due diligence or contract negotiation, or where higher-end attorneys are involved, may result in higher fees or the rendering of services by the hour.

### **Bank Fees**

If you are financing a part of the purchase price of your apartment, you will also incur fees from the lending bank. These fees may include origination costs (often called "points"), application and credit report fees, appraisal charges, bank attorney fees, escrows for real estate taxes and insurance and various other charges. Your mortgage broker will be able to give you a complete breakdown of these charges when you're shopping for a mortgage loan.

### **Title Charges**

Title insurance rates are set by government regulation in New York and can vary by county. For example, in Manhattan (New York County), a purchase price of \$1,000,000.00, with a mortgage of \$600,000.00, will generate a fee policy premium of \$4,508.00 and a mortgage policy premium of \$732.00 (for a total premium cost of

\$5,240.00, excluding other title charges such as municipal searches and other required title endorsements). When you are purchasing from a sponsor (that is, a developer of a new condominium building), you may get the benefit of discounted title insurance premiums because the same policy is being written for a large number of unit owners. It is always a good idea to ask the title company to generate an estimated title bill as soon as possible, so that the buyer will be apprised of the expected title charges as soon as possible.

### **Mortgage Recording Tax**

A feature unique to New York State, is the mortgage recording tax (that is, a fee charged by the state for the "privilege" of recording a mortgage). This fee, for the moment, applies only to real estate purchases (as opposed to coop purchases), so only condominium transactions are subject to the tax. The fee charged by New York State varies by county, and, of course, New York City has the most complicated fee schedule. In addition, New York City charges a mortgage recording fee as well. The combined total rates for New York City are calculated as follows:

*When the principal amount of the loan is less than \$500,000, the tax rate is \$2.05 for each \$100 of the principal amount of the loan. However, if the mortgage is on a one- or two-family house, the tax is reduced by \$0.30 for each \$100 of the first \$10,000 of the principal amount.*

*For mortgage loan amounts greater than \$500,000 the tax rate is \$2.175 for each \$100, or major fraction thereof, of the principal amount. If the mortgage is on a one- or two-family house, the tax is reduced by \$0.30 for each \$100 of the first \$10,000 of the principal amount.*

*Where mortgage loan amount is \$500,000 or more and the property to be covered is not a one-, two-, or three-family house or individual residential condominium unit, the tax rate is \$2.80 for each \$100, or major fraction thereof, of the principal amount.*

The above being said, make sure to include a line item for the mortgage recording tax if you are purchasing a condo and you are financing a portion of the transaction.

### **Estimated New York State Capital Gains Tax**

If you are selling an apartment and you are not a resident of New York State and don't qualify for certain exemptions, you will be required to make an estimated New York State capital gains tax payment at the closing. The 8% tax is payable on the difference between the tax basis of the original purchase price (adjusted for closing costs, improvements and depreciation, if a rental property) and the sale price of the

apartment, less closing costs. If you have owned the apartment for a considerable period of time, there can be a significant gain that will be taxed. Accordingly, your accountant or tax planner should be in the loop when you plan to sell the apartment and you no longer reside in New York.

### **Architect and Engineering Fees**

Although not actually a closing item, if you are planning a renovation of your apartment after purchasing, you will be obligated to sign an "alteration agreement" with the co-op or condo, and in some cases, deposit a sum of money to protect against damages incurred during renovation. This deposit may be refunded if the renovation goes smoothly, depending on the Board's policy in your particular building. This agreement indemnifies the building against anything that might go wrong during construction or at any time thereafter that causes the building to suffer a monetary loss as a result of your renovation. In connection with your request for alterations, the Board may have its architect or engineer review your plans. In most cases, you will be obligated to reimburse the building for the "reasonable" costs they incur in reviewing your alteration application.

### **Pre-Purchase Inspections**

Most brokers would encourage a buyer not to have a pre-purchase inspection of the apartment. In many cases, the inspection isn't necessary, but it can never hurt to have a professional walk through the apartment. Of course the quality of the inspection depends upon the quality of the inspector. Getting a referral you can depend on is essential. Expect to pay up to \$1,000.00 for a pre-purchase inspection, depending upon the experience of the inspector and the size of the apartment.

### **Insurance Coverage**

Although not usually a requirement for a co-op or condo closing (but always required for a house purchase when a bank is involved), a purchaser of an apartment should obtain an insurance policy covering the contents of the apartment (that is furniture and personal property), what's known as "betterments" (that is, the interior build out of the apartment) and liability coverage for injury to person or property. The cost of insurance can vary significantly depending upon whether a purchaser uses a plain vanilla carrier such as Travelers or a high end company such as Chubb or Fireman's Fund. No matter which insurance company is selected, make sure the coverage is in place on the day of closing. An apartment is a significant asset for most purchasers. Make sure it's properly insured.

### **Residential Reality: Get Out Your Checkbooks**

Purchasing an apartment in New York is an expensive proposition and that's before you get to Williams Sonoma and Pottery Barn. Make sure your attorney and mortgage broker review all of the above costs with you, so nothing comes as a surprise.

For more on how to avoid problems at closing, see "[Houston, We've Got a Problem](#)".

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