

U.S. RESIDENT INVESTOR GUIDE

GETTING READY

To be prepared to act in a speed appropriate to the New York City real estate market, it is suggested that you follow these steps prior to your visit:

- *Define your Investment Strategy*

The most common investment style in New York City is Rental Property with the next nearest preference in New Construction Speculation. There may be limited opportunity in our market for other styles including investment units for Rehabilitation or Foreclosure units.

Rental Property | There are two possibilities for success in the Rental Investment market:

1. Rental Income
2. Appreciation

While the success in one area does not preclude success in the other, it is wise to decide the importance of each to your investment strategy.

Rental Income can place an investor in either a positive or negative cash flow situation. Many new investors enter the market thinking only of purchasing a property where the rent will exceed the expenses of ownership, however depending on how an investment purchase is structured, there can be benefits to a negative cash-flow investment. Adjusting the amount of financing used to purchase the investment property can help in reaching the desired cash-flow situation.

Halstead360 offers a full-service property management program to assist our clients with managing their rental investment properties.

New Construction Speculation | New Construction Speculation relies on entering into a contract with a developer and receiving appreciation during the construction phase of the building. Appreciation can be achieved through increasing real estate market values as well as pricing increases during subsequent phased release of other units in the building by the developer. While popular belief holds that this type of investment must be made during the first phase release, this phase is typically shared with friends and family of the developer and rarely makes the open market. Later phase release apartments can be profitable investments. Buying at any phase should require the same depth of research including building and current market situations.

- *Establish your Investing Structure*

The manner in which you structure your investment purchase can have an effect on the profitability of the venture. Establishing a Family Trust can help limit tax liabilities for your beneficiaries. Creating a corporate structure (LLC, S-Corp, C-Corp) can limit both tax liabilities and your personal liability for the property.

Speak with your attorney about the benefits of setting up a Family Trust or creating a Corporation to protect your investment. With proper advanced planning, many of these potential tax consequences may be avoided to the benefit of greater return on your investment.

- *Prepare Financing*

If you are planning on financing any of the purchase price, speak with a Mortgage Lender/Broker and obtain pre-qualification for a loan. This makes you more qualified in the eyes of the seller and helps you focus your search on the properties right for you.

Prepare at least 10% of the target purchase price available in liquid assets for use as a deposit.

WORKING WITH YOUR HALSTEAD REAL ESTATE AGENT

Fully disclose your financial situation and your real estate preferences to your Agent. She/he will research the apartments that best fit your parameters and help you perform a targeted search. Independent research on the web is also encouraged and almost all websites will have an “Email a Friend” feature so that you can forward properties of interest to your Agent for further research.

Web Tips:

- Be aware that many websites do not sufficiently distinguish between Condominiums, which are best for investments and Cooperatives whose policies are typically not conducive to an investment. (See ‘Condos, Co-ops & Townhouses’ for more information on forms of ownership.)
- New Development sites will ask you to register to receive information and updates on the project. In order to ensure you have your own representation in the transaction, do not provide your information and notify your Halstead Agent of your interest in the property.

PROPERTY SEARCH

Your real estate agent will personally escort you to all properties meeting your predetermined parameters. New Developments in the early phase of construction may not have the ability to be seen, therefore it is recommended that you still accompany your Agent to the sales office and pay a visit to the building site.

The best time to view properties is typically Monday – Friday, 9am – 6pm. It is still possible to view many apartments during the evening and weekends, but when planning a trip, it is best to include at least one weekday.

Although New York City does not have an Multiple Listing System the same as found around the U.S., all reputable firms share their listings. The process is overseen by the Real Estate Board of New York whose policies are similar to those of an MLS. What this means for our customers is that Halstead Property Agents have access to all available listings including New Developments.

PURCHASE PROCESS

Offer | Submit a written offer through your Real Estate Agent. An offer includes your preferences for price, closing date (in the case of re-sale units), and the personal property you would like included or excluded. Along with the offer, your Agent will submit information on the financial qualifications of you or the purchasing corporation.

Contract | Once the seller accepts your offer, the seller's attorney supplies your attorney with the contract. Your attorney will review with you the contract which, after execution, must be returned to the seller for signature accompanied by typically a 10% deposit to be held in escrow until closing. New Developments may require additional deposits throughout the construction period and prior to closing, but these will be outlined in the contract.

The escrow process provides a neutral depository for all documents and money. The Escrow Holder has equal duty to the buyer and seller and is considered preferable to releasing deposit funds directly to a seller prior to closing.

Until both parties sign a contract and each party receives a fully executed copy, a seller can accept another purchaser's offer. Use a New York City real estate attorney and instruct her/him to proceed expeditiously.

Immediately apply for a mortgage. It may take as many as 45 days to receive a loan commitment.

Board Package Application | For re-sale Condominiums and Cooperative units only

While awaiting your mortgage commitment, your Agent will assist you with completion of the Condo or Co-op board application package.

With a Co-op, the completed package must be returned to your Agent within 10 days of receipt of the fully executed contract or 3 days from the date a bank commitment letter is received, whichever applies. A Condo application should be completed as quickly as possible although the contract rarely specifies an exact timeframe for completion.

Interview | Typically for Cooperative units only

Upon review of your application, the Cooperative Board of Directors will schedule a personal interview with you. The Board's decision is customarily made known within 72 hours, however some Boards may take longer.

Meet with your Agent before an interview to prepare.

Upon Board approval, notify your attorney who, in turn, will coordinate the closing date. This can take up to 4 weeks to schedule.

Inspection | The day before or the morning of the closing, your Agent will accompany you to inspect the property. Make certain to check appliances, the removal of personal or construction property and that the premises are in broom swept condition.

Closing | At the closing, be sure to bring your driver's license or passport, check book and all certified checks as instructed by your attorney. (*See Closing Costs*)

COOPERATIVES:

The closing is normally held at the office of the building's management company. In attendance are the buyer and seller, the buyer and seller's attorneys and real estate agents, the lender's attorney and a representative from the management's transfer department. Checks representing the balance of the purchase price and adjustments are exchanged for the keys to the apartment.

CONDOMINIUMS AND TOWNHOUSES:

The closing is normally held at the office of the seller's or lender's attorney. In attendance are the buyer and seller, the buyer and seller's attorneys and real estate agents, the lender's attorney and the title company closer. Checks representing the balance of the purchase price and adjustments are exchanged for the keys to the apartment or house.

Leasing through Final Sale | Halstead Property Management can be hired to handle the day-to-day management of investment property from tenant identification and negotiation to maintenance of the unit through to the final sale.

CLOSING COSTS

FOR THE SELLER

Broker.....	as provided in exclusive with broker
Own Attorney.....	approx. \$2,000 +/-, as negotiated
Managing Agent's Fee	approx. \$500 +, as determined by building
Move-out Deposit or Fee	approx. \$1,000, as determined by building
New York City Transfer Tax**	1% of <u>entire</u> gross purchase price, if price is \$500,000 or <u>under</u> ; or, 1.425% of <u>entire</u> gross purchase price, if price <u>exceeds</u> \$500,000
New York State Transfer Tax.....	0.4% (.004) of gross purchase price
Bank, Satisfaction of Mortgage Fees.....	approx. \$450, as determined by bank
Recording, ACRIS, other fees.....	approx. \$150
Gains Tax Withholding (Out of State Seller).....	8.97% of gain
Non – US Resident (FIRPTA).....	10% of price withheld or paid
Stock Transfer Tax (Coops Only).....	\$0.05/share

FOR THE PURCHASER

Own Attorney.....	Approx. \$2,000 +/-, as negotiated
<u>Bank Fees</u> : application, credit, appraisal, bank attorney and miscellaneous.....	Approx. \$2,200, as determined by bank
Short-term Interest.....	One month max (prorated for month of closing)
Misc. Recording Fees*	Approx. \$500
Mortgage Recording Fee*/**	2.05% of <u>entire</u> amount of Mortgage on Loans \$500,000 or <u>under</u> ; or, 2.175% of <u>entire</u> amount of Mortgage on Loans <u>exceeding</u> \$500,000
Fee Title Insurance*.....	Approx. \$8,000 for \$2,000,000 NYC condo, based on rate schedule
Mortgagee Title Insurance*.....	Approx. \$1,500 for \$1,500,000 NYC condo mortgage, based on rate Schedule
Misc. Title Charges*.....	Approx. \$500
Managing Agent's Fee.....	Approx. \$500, as determined by Building

FOR THE BUYER *(cont'd)*

Adjustments:

- Common Charges.....Approx. One month (prorated for month of closing)
- Real Estate Tax Escrow.....Approx. 8 months (pro rated to closing, plus 6 month escrow, may include insurance)

Mansion Tax.....1% of entire gross purchase price, if purchase price exceeds \$1,000,000

Move-in Deposit or Fee.....Approx. \$1,000, as determined by building

Lien Search (Co-ops Only).....Approx. \$350

* Mortgage Recording Tax and Title Insurance not required for Co-ops, though title insurance is available for Co-ops at other rates.

** For Bulk Sale, Multi Family and Commercial Property: NYC Transfer Tax Rates \$1.425% under \$500,000, 2.625% above; Mortgage Recording Tax Rates, 2.05% under \$500,000; 2.8% above \$500,000.

When purchasing a condominium unit directly from a Sponsor, the Purchaser may be required to pay New York City and New York State Transfer Taxes (See “For The Seller” section above for amounts), as well as the Sponsor’s attorney’s fee (typically around \$1,500).

All costs are estimated, and will vary based on transaction specifics, changes in rates and taxes, and other factors. No representation is made as to the accuracy of these estimates. Parties to transactions must consult their own counsel and refer to transaction specifics for verification of all costs.

FORMS OF OWNERSHIP: CONDOS, CO-OPS & TOWNHOUSES

Condominium | The ownership of a Condominium apartment is similar to the ownership of real property. A purchaser of a Condo takes title by deed for not only the apartment but also a percentage of the building's common areas. Each owner pays property taxes to the city and common charges to the Board of Managers for their individual units on a monthly basis. Real estate taxes may be deductible, however common charges are not.

The Board of Managers is elected by the Condo residents to oversee building operations and enforcement of the "house rules." The Board uses the common charges to pay building employees, repairs and improvements to the building.

Condos did not traditionally have an approval process, however in recent years have implemented a procedure whereby purchasers and lessors must submit an application. The Board of Managers reviews this application and must either approve the applicant or exercise the condominium "right of first refusal" and match the purchase price. Although uncommon, the option to purchase the apartment from the current owner rather than have it transferred to the applicant is available to them.

New Development Condos do not yet have a Board of Managers and, therefore, do not require an application.

Most Condo policies towards subletting are considerably more lenient than those in most Co-ops. By allowing the right to sublet, Condominiums are often the best choice for investors. Many Condos restrict rental terms to 1 year leases or more and do not allow for short-term leasing. Depending on the Board's subletting policy, rental applicants may be required to submit a Board Application and receive Board approval to lease.

Cooperative | Cooperatives, or Co-ops, comprise approximately 75% of New York City's real estate market. When purchasing a Co-op apartment, one purchases shares of stock in a corporation that owns the building and possibly the land beneath it. A stock certificate representing the purchased shares and a proprietary lease giving the right to occupy the apartment are conveyed at closing.

The size of the apartment and its amenities determine the number of allocated shares which therefore determines the amount of maintenance. Maintenance covers the upkeep of common areas, staff salaries as well as payment of real estate taxes and interest on any underlying building mortgage.

A Board of Directors, whose duties are to conduct the business of the corporation and oversee the Management Company of the building, is elected from among the shareholders. Typically, the Board reviews the application of each prospective shareholder or lessee and presides over a personal interview prior to approving any purchase or lease. The Board has the right to approve or deny any applicant without cause.

Most Co-ops require shareholders to occupy their apartments as primary residences, however, normally an allowance is made for one or two years of subletting. A prospective lessor is required to submit a formal application and personally interview with the Board for its approval.

Financing a Co-op purchase requires the use of a personal loan rather than a mortgage. The lending institution holds the original stock certificate as collateral, since the lien is actually against the shares. As with a traditional mortgage, the interest on the loan is tax deductible.

The Co-op establishes the amount of allowable financing, the most common percentage being 75% or less. Some buildings stipulate 50% or no financing at all.

Townhouse & House | A purchaser of a Townhouse receives "fee simple" ownership of real property. The owner is responsible for payment of real estate taxes and maintenance and is solely responsible for approving the sale of the property.