



UP TO 2% OF YOUR PURCHASE PRICE CASH BACK AT CLOSING

# **First-Time Homebuyer's Guide**

**For more information:**

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## First-Time Homebuyer's Guide

Due to a number of factors unique to the New York City market, the home buying process here is a particularly complicated and stressful endeavor. The below presents a description of each phase of the process and should serve as a good primer for those who are considering buying NYC real estate. For more information, please visit <https://digsrealtynyc.com/digs-realtys-first-time-home-buyer-guide/>.

### Preparation

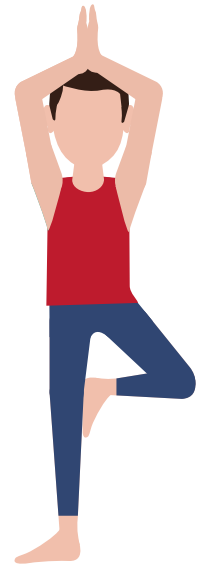
When you decide it's the right time to start looking, it's important you do a few things to prepare for your search:

**Lease.** Determine how much time is left on your lease. Finding the right apartment can often take months, especially with inventory continuing to remain at historically low levels relative to demand, and with many co-ops and condos, once you enter into a purchase contract, it can take up to 90 days to close if you are financing.

**Finances.** Take a long and hard look at your finances to determine what you can afford and what you want to spend. Most buildings require at least 20% down, and most co-ops will only accept applicants that meet certain financial criteria.

**Real Estate Broker.** It is important to engage an experienced broker to guide you and represent your interests throughout the homebuying process. Hiring a broker on the buy side costs you nothing (the seller pays the entire commission, which is split between the buyer's and seller's brokers). If you decide to work with a broker, choose one you can trust and who will not pressure you to do anything you are not comfortable doing.

**Mortgage.** Contact a mortgage professional to get pre-approved and figure out what kind of loan you will be able to obtain. If you are financing your purchase, your offer will not be taken seriously unless it is accompanied by a mortgage pre-approval.



### Search

For years, StreetEasy has been the best resource available for buyers in the NYC marketplace, but this past summer, they made a few questionable business decisions which compromised their position in the marketplace and, in turn, a number of the large brokerage companies no longer sending listings directly to the site (although many agents from those firms still do so manually). Realtor.com and NYTimes Real Estate both publish a comprehensive feed from all brokerage companies and can be trusted to be comprehensive, but the platforms are not as user-friendly and the data presented are not that useful.



### Price Analysis

If you find a home you love, before making an offer, it is important to do a price analysis, so you can bid properly – not overpay or offer too little. Your broker should provide you with a detailed written analysis of the price of that particular unit relative to comparable apartments which have recently sold, are in contract and those that are currently on the market in the building and neighborhood, together with prevailing market trends (both macro and micro).



## Offers

When you decide to make a bid on an apartment, your broker will prepare and present your offer.

**Offer with Financing.** Your offer must be submitted with the REBNY financial statement and a pre-approval letter from your lender.

**All-Cash Offer for a Townhouse or Condo.** A prudent seller's broker will require proof of funds submitted with the offer (not all of them do), and REBNY financial statements are not typically required.

**All-Cash Offer for a Co-op.** Proof of funds will still be required, but the REBNY financial statement will also be required.

**Co-op Offers.** Since co-op boards often look at attributes other than simply an offeror's finances, it is useful to submit some additional personal information with your offer, such as your educational background, job, family and interests, to give the seller a bit more comfort that you will be approved by the board.

**Contingent v. Non-Contingent Offers.** Historically, except in all-cash deals, most purchases have been contingent on the buyer's ability to obtain financing. In today's seller-friendly environment, however, sellers often ask that the buyer waive the mortgage contingency, thereby transferring to the buyer the risk of the buyer not being able to get a loan. In competitive bidding situations, it is unusual if the seller does not make this request. For more information about the mortgage contingency, please visit <https://digsrealtynyc.com/waiving-mortgage-contingency-buying-home-nyc/>.

**Negotiation/Highest-and-Best.** Following submission of the offer, there may be a brief negotiation period where the parties go back and forth before settling on the purchase price and other terms of the deal. With inventory continuing to linger at historically low levels relative to demand, if an apartment is priced properly and has broad appeal, there is a good chance it will have multiple offers after just a couple weeks of open houses and showings. In this case, the seller's broker will likely announce a deadline by which the potential buyers must submit their highest and best offers. Once your broker submits your highest and best offer, the seller typically accepts what they deem to be the best one, which is not always the highest bid, but rather a combination of a good price and low risk of not being able to close.



## Acceptance

In a highest-and-best bidding, you will typically hear whether your offer has been accepted within a day or two of making it. Once an offer is accepted, the seller's broker will send out a deal sheet (akin to a letter of intent) to both parties and their attorneys. It is important to note that accepted offers are not legally binding on the parties, and before a contract is signed, either party can back out of the transaction without penalty (which actually happens with greater frequency than you would think). Accordingly, a seller's broker will likely continue showing an apartment to potential buyers and fielding offers until a contract is signed.





## Attorney Review/Due Diligence

Once the deal sheet is circulated to the parties, the seller's attorney will send a draft contract to your attorney. The contract will be based on a standard form that is used in virtually every residential deal. The contract riders are where all the deal-specific provisions will be. At the same time as the contract is being negotiated, your attorney will perform due diligence on the building and the unit you will be purchasing. This includes reading the co-op/condo board minutes to determine whether the unit has been the subject of anything noteworthy over the past few years, reviewing the building's financial statements and governing documents and submitting a detailed questionnaire to the building's managing agent. Buyers can also have a home inspection performed at this time.

## Contract Signing

Once your attorney completes due diligence and negotiates the contract, it will be time to sign the contract. At signing, your attorney will deliver your signed contract to the seller's attorney together with a payment of 10% of the purchase price, which is deposited into escrow with the seller's attorney. When the seller countersigns and a fully executed copy is circulated to the parties, the deal will be legally binding pursuant to the terms of the contract.



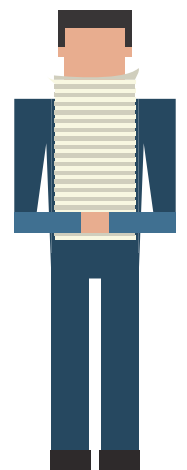
## Appraisal/Loan Commitment

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## Board Application Package

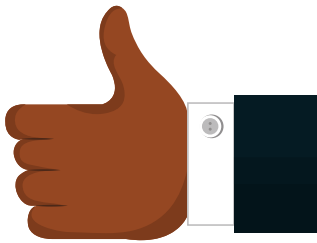
Promptly after contract signing, the board application process begins. Both condos and co-ops have extensive board applications. Condos are often less extensive because the approval process is significantly less rigorous, but many still require submission of proof of finances and employment. The major difference between the board approval process for condos and co-ops is the condo board's right of first refusal. The only recourse that a condo board has to "reject" an applicant is to purchase the unit at the purchase price you agreed to with the seller. As you can imagine, with prices where they are, this very rarely happens. Co-op boards, however, have no such restrictions and, for the most part, can freely reject buyers for any reason or no reason at all, without consequence or explanation.



## Board Application Package (cont'd)

Accordingly, if you buy a co-op, your application package must be timely submitted, professional and complete. You should expect to provide, at a minimum, several personal and business letters of reference for you and whomever else will be involved in the purchase and/or living with you in the unit, a letter of good standing from your current landlord, statements dating back 3-6 months for all bank and investment accounts you have, past tax returns and income and employment verification letters. Generally speaking, board applications must be submitted for review within a few business days after your loan commitment is received. If you are all cash, board applications are typically required to be submitted within 10 business days of contract signing.

### Board Approval



With a condo, the board generally has a month or so (20 business days) to issue a waiver of its right of first refusal, but it is often done much more quickly. This waiver is a condo board's de facto approval of your application. With a co-op, if your application passes muster with the co-op board, you will then be required to sit for an interview with one or more members of the board before formal approval is issued. Co-op board interviews are generally an unreasonable cause for concern, and in many buildings are nothing more than friendly occasions where you meet the board members and are welcomed to the building, but some boards will ask tough questions.

### Walk-through

Following your approval, your attorney will schedule the closing. Immediately prior to closing (typically the morning of or the day before), you and your broker will do a walk-through of the unit. In the standard purchase agreement, the buyer agrees to purchase an apartment in the condition in which it exists on the date of the contract, so the walk-through is your opportunity to confirm that nothing has changed in a material way since you signed.



### Closing



The closing is a relatively uneventful affair (except for the fact that you may be going into serious debt and parting with a significant chunk of money). You will be sitting at a table in a conference room next to your attorney and will be asked to sign what will seem like 100 documents. Once all documents are signed and the bank has approved the funding of your loan, the deal will close. Everybody will shake hands and smile and you will get several sets of keys to the apartment and, if you work with Digs Realty, a big rebate check.

## ABOUT DIGS REALTY

Digs Realty is a full-service residential brokerage company specializing in home purchases and sales in New York City. Clients working with Digs on a purchase are eligible for a rebate of up to 2% of the purchase price, and clients working with Digs on a sale are eligible for commission discounts.

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## Closing Costs for Buyers CO-OPS

### Co-op Fees

Recognition Agreement Review Fee. \$150-\$300 if financing

Co-op Fees. \$500-\$1000 refundable move-in deposit;  
\$250-\$750 non-refundable move-in fee

### Lien Search / UCC-1

Lien Search. \$350

UCC-1 Filing Fee. \$75-\$100 (If financing)

### Taxes

Mansion Tax.

- \$1,000,000 – \$1,999,999: 1% of the purchase price
- \$2,000,000 – \$2,999,999: 1.25% of the purchase price
- \$3,000,000 – \$4,999,999: 1.5% of the purchase price
- \$5,000,000 – \$9,999,999: 2.25% of the purchase price
- \$10,000,000 – \$14,999,999: 3.25% of the purchase price
- \$15,000,000 – \$19,999,999: 3.5% of the purchase price
- \$20,000,000 – \$24,999,999: 3.75% of the purchase price
- \$25,000,000 and up: 3.9% of the purchase price



### Legal Fees

Purchaser's Attorney. \$2,000-\$3,500

Banker's Attorney. \$850-\$1,000

### Additional Closing Costs for Sponsor Sales

Sponsor's Attorney. \$2,500-\$4,000

Sponsor's Transfer Taxes. Determined by first calculating the transfer taxes on the purchase price using the following guidelines:

#### NYC Transfer Tax

- 1% of the purchase price if \$500,000 or below
- 1.425% of the purchase price if above \$500,000

#### NYS Transfer Tax

- 0.4% of purchase price

Once the figure of NYC and NYS taxes is determined, then the taxes are re-calculated based on the sum of the original purchase price and the NYC and NYS transfer taxes.



## CONDOS

### Title Insurance

**Title Insurance Fee.** Varies depending on the purchase price and regulated by the state, but is typically approximately .45% of the purchase price. It is best to use an online rate calculator from a reputable title company website.

**Mortgage Title Insurance.** Reduced rate applies for simultaneous purchase and mortgage (if applicable). It is best to use an online rate calculator from a reputable title company website.

**Recording Fees.** \$250-\$750

**Municipal Search Fees.** \$350-\$500

**Title Endorsements.** \$75-\$150

### Home Owner's Insurance

**H06 Policy Required by Lender.** Costs will vary depending on coverage selected by the purchaser. Check with insurance agent.

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#### Mortgage Recording Tax.

- Mortgage less than \$500,000: 1.8% of the mortgage amount (minus \$30 for 1 or 2 family dwellings)
- Mortgage \$500,000 and above on 1-3 family residential dwelling: 1.925% of the mortgage amount (minus \$30 for 1 or 2 family dwellings)
- Mortgage on all other property \$500,000 and over: 2.8% of the mortgage amount



## CONDOS (cont'd)

### Legal Fees

Purchaser's Attorney. \$2,000-\$3,500

Banker's Attorney. \$850-\$1,000

### Condo Fees

Condo Fees. \$500-\$1000 refundable move-in deposit; \$250-\$750 non-refundable move-in fee

### Additional Closing Costs for New Construction Condos

**Super's Unit.** Purchaser pays for this in some cases. The unit is allocated a dollar value by the sponsor and the purchaser's portion is calculated as a percentage of the common interest associated with the unit.

**Working Capital Contribution.** One time charge of 1-2 months of common charges

**Sponsor's Attorney.** \$2,500-\$4,000

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Closing Costs for Buyers

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