

CO-OPS & CO-OWNERSHIPS DEMYSTIFIED

Although residential real estate prices in Toronto may be beyond the reach of many prospective purchasers of average means, there are some "bargains" not generally recognized. Co-ops and Co-ownership units, usually apartments, but occasionally townhouses - typically sell for 15% to 25% less than Condominiums of equal quality in comparable locations. It is true that caution must be exercised. Some buildings have legal structures which carry certain risks or which otherwise adversely affect the marketability of the units. However, there are a number of buildings which have incorporated many if not all of the Condominium style protections. These units can be good investments and have been shown to appreciate as other residential properties do.

HOW DO THESE STRUCTURES DIFFER FROM A CONDOMINIUM?

CONDO

In a Condo, a purchaser acquires legal title to a unit while at the same time becoming an owner of a percentage interest in the common elements and a member of the Condominium Corporation.

CO-OWNERSHIP

In a Co-ownership, the owner holds a percentage interest in the entire building (registered on title) and possesses the exclusive right to occupy a unit by virtue of an exclusive Licensor Co-ownership Agreement (registered on Title).

CO-OP

In a Co-op, a corporation is the registered owner of the property. The purchaser takes shares in the common stock of the corporation and has the exclusive right to occupy a unit by virtue of a Proprietary Lease or Occupancy Agreement.

One of the major considerations in the purchase of a Co-ownership or Co-op is the availability of financing. Some Schedule "A" banks and trust companies will routinely finance certain approved buildings for individual unit mortgages or loans up to 70-75% of the purchase price and will allow small vendor take back 2nd mortgages to be registered. Financing of buildings not structured for individual unit mortgages can be obtained from credit unions or syndicated funds at a somewhat higher rate. Purchasers of apartments in buildings with blanket mortgages (mortgages registered against the entire building whereby each unit owner must assume a proportionate share of liability for the blanket mortgage) frequently must pay a high down payment of cash on closing because it is difficult to obtain a 2nd mortgage for the difference between the purchase price and the pre-existing fixed portion of the blanket mortgage that must be assumed by the individual unit owners. (Today most co-ops and co-ownerships have paid off their blanket mortgages.)

For example: Unit Cost: \$100,000 - \$25,000 down - assume \$75,000 share of blanket mortgage - resell 2 years later \$135,000 - purchaser must have \$60,000 cash down to the existing mortgage. This was/is the problem with the blanket mortgage.

SOME PERTINENT QUESTIONS TO ASK ABOUT CO-OWNERSHIPS & CO-OPS

1. Was the building originally built as a residential co-ownership or co-op (as many were in the 1950's)?
2. If it was originally a rental building, was the building legally converted under the Residential Protection Housing Act of 1986?
3. Has the blanket mortgage on the building been discharged? If not, does the developer/vendor indemnify the purchaser from liability for the blanket mortgage?
4. If consent of the Co-ownership or Co-op is required to sell the unit, are the grounds for refusing consent limited, as it the usual case, to matters of credit only?
5. Does the building prohibit renting? Most do not.
6. If renting is permitted, what percentage of the units are owner occupied?
7. If the Co-ownership or Co-op controlled and managed by the person who converted the building from a rental operation to Co-ownership or Co-op or is the property managed by a professional property management firm?
8. Are there current audited statements and budgets available?
9. Does the Co-ownership or Co-op maintain a reserve fund for major repairs and replacements?
10. Is there a standard Status Certificate available with substantially the same assurances and protection as can be found in Condominium Certificates?

In summary, there are buildings as secure as condo's and there are others which to a greater or lesser extent carry certain risks or drawbacks. Real Estate agents specializing in Co-ownerships and Co-ops can identify those buildings which are good investments.

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