



Buyers Guide to Townhouses



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HAS ALWAYS BEEN TO EXCEED THE
EXPECTATIONS OF EVERY CLIENT.*





Purchasing a townhouse in New York City can be similar to buying a home in other parts of the country, with some specific nuances for buyers to be aware of going into the process. This guide will answer some of the most common questions that buyers tend to have.

FREQUENTLY ASKED QUESTIONS

WHAT IS A ROW HOUSE?

A Row House is one of a group of residential buildings that shares one or both side walls and a roofline with the structures next door. A Row House is typically three to five stories in height and was most commonly constructed to be a one or two family residence. As time passed and owner requirements changed, many were converted to three or more family structures. Row Houses tend to have similar style elements to their exterior design.

WHAT IS TOWNHOUSE?

A Townhouse is a residential building that shares one or both side walls with the structure next door. A Townhouse doesn't necessarily have similar style elements as its neighbors and that is the core difference between a Townhouse and a Row House. Townhouses tend to be higher end than the typical Row House, though this isn't always the case.

WHAT IS A BROWNSTONE?

A Brownstone is a type of Townhouse or Row House clad in a brown sandstone. Many early Row Houses had brick construction with only the façade having Brownstone, though it later became more common to construct the entire home in sandstone.

THE PURCHASE PROCESS

While buying a condo or co-op in NYC is a radically different process from buying anywhere else, the purchase process for a townhouse in NYC is not very different than buying a luxury home elsewhere in the US. Sellers will want to see proof of funds (if all cash) or a bank pre-approval (if financing). Additionally, they will ask to see your REBNY form (a statement of net worth), which gives the seller confidence that they should stop showing the home. Once an offer has been accepted, you will have the home inspected, your real estate attorney will perform due diligence, including looking for liens, open violations and open permits on the building and negotiate the contract for signatures. Unlike condos and coops, there is no board approval required, so closing can occur immediately after contract signing for a cash deal, or as soon as the bank issues clearance to close for a financing deal.

Details to look out for include: Boiler age/condition, roof/age condition, gas or oil, general condition of interior and exterior elements.

WHAT IS THE DIFFERENCE BETWEEN A 1, 2, 3 AND 4+ FAMILY HOME?

The answer to this question will depend on who you are speaking with. Banks, the Department of Finance and the Department of Buildings will each have a different perspective on this issue based on their objective. Ask your agent to help clarify.

DEPARTMENT OF BUILDINGS / FIRE CODE

Most townhouses, regardless of classification, require sprinkler systems if you are doing major renovations. Single family residences that are 3 stories or less do not require them. Two family properties that are detached and 3 stories or less are also exempt. All other townhouses require them throughout the home — which applies to most of the 2+ family townhouses in Manhattan.

The New York City Department of Buildings (DOB) isn't as strict in reviewing requirements for changes to 1 and 2 family properties. A 2 family property does have additional fire-protection requirements between the units, though that is often achieved through minor revisions such as using two layers of drywall rather than one. There may be other issues that may need to be addressed as well, though it will depend on specifics of the property.

Three family and larger homes will receive far greater scrutiny than one or two family homes from the DOB.

It should also be noted that if the building is landmarked or in a historic district — you will need to have any exterior changes reviewed by the agency appropriate to the property.

DEPARTMENT OF FINANCE

Taxes:

Townhouses and apartments in buildings with three units or less, are assessed at 6% of their value. Properties with 4 units or more, by contrast, are assessed at 45% of their value. What does this mean to me?

For example, let's use a five story townhouse as our example. This townhouse is in contract and expected to sell for \$3,000,000. You also want to upgrade the property and will spend \$500,000. This investment will impact your property taxes and the city will only know what the contractors have estimated the costs to be, \$200,000 in this case.

1-3 family:

- Market value for Class 1 properties (1-3 family houses) is determined by statistical modeling analyzing prices of similar properties (i.e. size and location) that sold in your neighborhood in the prior 3 years, not likely anywhere near the \$3,000,000 the house will sell for. Instead, let's assume the Department of Finance uses a \$750,000 market value before the upgrades have been made. With the improvements, the city will use a market value of \$950,000.
- Tax Class 1 Assessment Ratio = 6%
- Assessed Value = Market Value (\$950,000) * Class 1 (0.06) = \$57,000
- The Assessed Value is then multiplied by the current tax rate for a Class 1 property (19.9910%)
- $\$57,000 * 0.19991 = \$11,395$
- Your final annual tax bill (assuming no other abatements) = \$11,395

4 or more family:

- Market value for Class 2 properties (4 or more family property) is determined by statistical models as a tool to find typical income and expenses for similar properties in terms of size, location, number of units and age. Then a formula is applied to the income data to get to determine Market Value. Let's assume the city uses the same market value as the situation above of \$950,000.
- Tax Class 2 Assessment Ratio = 45%
- Assessed Value = Market Value (\$950,000) * Class 2 (0.45) = \$427,500
- The city will use a Transitional Assessed Value to stabilize rapidly fluctuating values so that owners can actually afford to pay. For simplicity let's assume the Transitional Assessed Value is half the assessed value = \$213,750
- The Transitional Assessed Value is then multiplied by the current tax rate (12.8920%) for 4 or more family property. Note this is a lower tax rate than the 1-3 family rate.
- $\$213,750 * 0.12892 = \$27,557$
- Your final annual tax bill (assuming no other abatements) = \$27,557

BANKS/LENDERS

Lenders classify 1-3 family homes as residential mortgages and can lend on these properties assuming the property is free and clear of liens. Some banks will lend on a 4 family property with residential lending terms if you plan on residing in the property. If a 4 or more family will be an investment property, then a commercial lender would be needed to underwrite a loan to purchase the property. Mortgage rates tend to be a bit lower for single family rather than multi-family properties.





WHAT IS AN SRO?

SRO stands for Single Room Occupancy buildings. These are buildings that were used as boarding houses or hostels. Most of these buildings rent out a single room to each tenant and they share common facilities such as the bathrooms and kitchens. A tenant can ask for a lease at any point in time, even if they have lived in the building for a day. If a tenant stays for more than 30 days, they cannot be evicted without a court order and a warrant. A tenant that stays for 6 months or longer can get a lease that entitles them to rent stabilization. This entitles the tenant to legal protections. Converting an SRO to a single or multi-family non-SRO property isn't necessarily an easy or quick process in many instances. As a result, most banks will not finance SRO's.

It is possible to use an SRO as a single family property without changing the SRO status, though the city will not let you make significant changes to the property. In this scenario, you would only be permitted to fix or maintain the property with only minor alterations allowed.

Unfortunately it is not always properly advertised if a home is an SRO or that the home doesn't match the Certificate of Occupancy. This can make shopping online difficult.

HOW DO RENT STABILIZED UNITS IMPACT A HOME?

Many buildings have Rent Stabilized units. The goal of rent stabilized units is to keep NYC affordable for the hard working class that help supports so many functions in our city and keeps them close to where the jobs are. Landlords should consult their broker on recent changes to the Tenant Protection Act (TPA) of 2019 and understand what needs to be done for notifying these tenants of changes, allowable rent increases, renewals and reporting back to the DHCR with the city. These restrictions do impact your ability to increase rent roll on these units which can have an impact for financing and overall value to be aware of. Consulting your broker and attorney for the most recent regulations on these units is important.

WHAT IS THE CERTIFICATE OF NON HARASSMENT (CONH)?

If an owner decides they want to convert an SRO to a single or multi-family non-SRO occupancy, it requires a filing with the city. The city will then attempt to track down all known occupants and ask them if they were harassed to vacate the premises. The city can go back as far as 8 years during their investigation. This process could take just a few months or could take many years. Each situation will be evaluated independently. If the city concludes that previous occupants were not harassed to vacate the house, they will issue a Certificate of Non-Harassment (CONH), which allows an owner the ability to renovate beyond a minor fix and maintain. The city will still need to approve any changes to the Certificate of Occupancy, i.e. from SRO to a legal three family.

HOW MUCH DO I NEED TO PUT DOWN ON A TOWNHOUSE INVESTMENT PROPERTY THAT I WILL NOT RESIDE IN?

The answer will largely depend on your source of financing. Some banks will allow a down payment of 35% while others will require a significantly larger down payment.

CAN I ADD ONTO THIS HOUSE?

There will be a couple of different factors that will define whether you can add to a building in New York City.

Floor Area Ratio (FAR) — FAR is the ratio of total building area to the area of its zoning lot. This ratio when multiplied by the lot area of the zoning lot, produces the maximum amount of floor area allowed on that zoning lot.

- A 10,000 sq ft zoning lot in a district with a maximum FAR of 1.0, the floor area on the zoning lot can't exceed 10,000 sq ft. If the existing floor area is less than the permitted maximum FAR, the owner may be able to add to the building.

Historic & Landmark districts — If a property is in a historic district or is landmarked- you might be limited on any expansion plans to areas that can't be viewed from the street.

CAN I GET A RESIDENTIAL MORTGAGE ON A PROPERTY WITH SOME COMMERCIAL SPACE?

Yes, it is possible to get a residential mortgage on a mixed use property provided that the building is at least 51% residential with a residential certificate of occupancy.

WHAT TYPE OF INSPECTIONS DOES THE CITY REQUIRE?

Three family homes or greater do require sprinkler systems and boilers to be inspected and certified annually. Additionally, three family or more units must comply with NYC's window guard law. This law requires landlords to send a window guard notice to each tenant every year and to properly install and maintain approved window guards in apartments where children 10 years old or younger reside, or, if the tenant requests them for any reason.

WHO IS RESPONSIBLE FOR CLEANING THE SIDEWALK OF SNOW AND ICE?

Many years ago, the city asked individual owners to maintain their own sidewalk space. If you fail to maintain it the city can fine you. Maintenance includes not just snow and ice removal, but also maintaining the concrete so that it isn't a trip hazard.

WHAT ARE SOME POINTS I NEED TO BE AWARE OF FOR INSURANCE COVERAGE?

A townhouse that is configured differently from the Certificate of Occupancy could be more difficult and expensive to insure. Most insurance policies will not cover the restoration costs of a townhouse's original features such as crown moldings and mahogany. Review coverage with an insurance agent that is experienced in insuring New York City townhouses.

Wood Frame houses (not very common in NYC, but a few exist) are far more expensive to insure than brick and/or stone houses.

Flood insurance can be expensive, so be sure to verify whether the property is in a flood zone or not. Also, on a separate but related note, water and sewage backups are the responsibility of townhouse owners, so be sure your insurance will cover these events appropriately.

WHAT DO I NEED TO KNOW ABOUT THE BUILDING SIZE?

Ideal is 20' or wider. Since most townhouses are adjacent to another building- the windows are often only in the front and back of the house- so the width helps determine the amount of natural light. The center of the building is typically where you will find closets, walkways, staircases, bathrooms, etc.

Anything less than 15' wide most buyers will pass on as they often feel too tight when factoring in staircases.

Building length is less of a factor due to less light. In many cases, you can add additions to the rear of the building and get it approved by the city.

Building height is important because many townhouses are set in historic districts and the only way to add additions to the height is by adding away from the street view. (i.e. an extra half floor set back toward the rear of the building)

IF THE BUILDING HAS EXISTING TENANTS – WHAT SHOULD I KNOW?

If you are buying a townhouse with the intent of sole occupancy, make sure the building is being delivered vacant.

If you are keeping existing tenants in place, review the leases for rent controlled or rent stabilized tenants. These tenants have the right to automatic renewals, and rents can only be raised by amounts approved by the city. There are also filing requirements and regulations with these types of situations. These rents are generally less than market rate tenants and this should be factored into your consideration when calculating whether this is an affordable purchase for you.

WHAT HAPPENS IF THERE ARE VIOLATIONS AND OPEN PERMITS ON THE PROPERTY BEFORE I CLOSE?

Most banks will want the violations cured or escrowed before they will lend money. Once you close, these items become your responsibility- not the seller's, to pay for these violations. The city will not provide leniency because you inherited past violations and they will expect you to comply with all filings going forward.





ELEGRAN REAL ESTATE

5 Bryant Park, New York, NY 10018

elegran.com | 212-729-5712

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I love Elegran because I enjoy working with smart, talented people who challenge me and make me laugh.

A handwritten signature in black ink, appearing to read "Michael Rossi".

MICHAEL ROSSI

CEO & Founder