April 7, 2021

Buying an apartment for your (grown) kid? Here are 7 things to keep in mind

A twentysomething and her mother recently checked out a rental in Greenwich Village, but the mother was not impressed. “If I’m going to pay $3,000 a month for my daughter to rent a place, I might as well buy,” she told Abra Nicolle Nowitz, an agent at the Corcoran Group. And so the mother did, paying about $550,000 for an alcove studio Nowitz showed them in a prime part of the Village.

That’s the calculation a lot of parents are making these days, especially with today’s low interest rates, Nowitz says. Parents are weighing renting vs. owning in NYC and finding owning wins out. There may be great deals on rental apartments right now, but those concessions go away at renewal time—and rents are expected to go back up to where they were before.

Plus the pandemic has put a lot of people in a good position to buy, Nowitz says. Many parents haven’t traveled or spent much on entertainment in the past year. Adult children who gave up their NYC rentals to live with their parents and work from home have also saved.

In fact, parents buying for children in NYC “is becoming a more typical state of affairs rather than the privilege it was viewed as earlier,” says Dean Roberts, a co-op and condo attorney at Norris McLaughlin.

And, “the post-pandemic world is likely to have more of these situations as frankly parents are willing to pay to get rid of their children and have their empty nest lives back,” he says.

Of course, it’s always been common for parents to pitch in to help an adult child purchase a place to live, or just outright buy their kid an apartment, like a teen starting college or young adult going to grad school, or a young professional hoping to get a toehold in an industry, or a young couple starting married life.

But even if you can afford to do so, buying a NYC apartment for a child is challenging. If you are thinking of taking on this task—or want to talk your parents into doing so—keep the following information in mind.

1. Get on the same page

It's important before you do anything to have clear expectations. Will the child contribute to the down payment? Who will pay maintenance? Will there be roommates, and if so, how will they be selected, and does the parent have any say in the matter? When mom or dad comes to town, can they crash there? You want as few gray areas as possible.

If the child involved doesn't have much of a credit history, it's worth considering putting their name on the deed, as this is a good way to start building one.

2. Prioritize your needs

Knowing what you definitely need versus what would be nice to have will help you focus your search. Things to consider include neighborhood, access to transit to get to where you need to go (school, job, etc.) as well as security issues, for example, is a doorman building a must have?

Give some thought to amenities as well. What's essential: A gym? An outdoor space of some kind? Be realistic about what will actually get used, because you will be paying for it.

3. Co-op vs. condo

One of the first things you'll notice when looking at New York City real estate is that co-ops are typically significantly cheaper than condos. However, the rules for co-ops tend to be much stricter and oftentimes allow only the primary owner to live there.

Look at a listing ahead of time and see if it says explicitly that parents buying for kids is allowed. (Many listings will specify this.) If not, don't assume it's not, but make sure before moving ahead so you don't waste your time.

While there's no hard and fast rule when it comes to which kinds of co-ops are more likely to allow parents buying for kids, generally, the high-end buildings on Park and Fifth avenues and Central Park West are less open to it than buildings on less posh streets, or smaller co-ops.

“There can be an inherent resentment among board members and tenants who went out, got jobs and paid for their apartments and now these kids are coming in," Roberts says.

"As a result, and wrongfully or not, owners whose parents bought their apartments are often viewed as privileged and there's a real worry that, ‘the guy's not paying [payments], he's young, he's new to the city and he's going to be throwing all night parties and disrupting our way of life,’” Roberts says.

But often the policy is just about an abundance of caution on the part of co-op boards—entities that tend to be very risk-averse. (Potential buyers aren't just future neighbors, they're fellow shareholders, so there's very real economic self-preservation at play.)

If you do find a co-op that will allow parents to buy for children, Nowitz suggests that parents consider co-purchasing with their child rather than simply buying the apartment for them outright, or acting as guarantors (depending on what the building's rules permit).

“Co-purchasing may strengthen the co-op package as it could reassure the board that the responsibility is shared between both parent and child,” she says.

However, some buildings don’t allow co-purchasing.

“I recently had a closing where the parents wanted to buy with the adult child with all of them as owners. But the co-op didn’t allow it,” says Adam Stone, an attorney at The Stone Law Firm. “The co-op wanted only the adult child to be the owner since he was the only one living there. The co-op preferred to have the parents as guarantors instead. I was surprised by this. From a co-op/landlord’s point of view, I thought it would be cleaner to have all of them on the stock and lease.

“The main point is to see what the building prefers or requires so it can be addressed in the very beginning and everyone agrees early on that this is the right buyer for this apartment,” he says.

“Even during the pandemic, some co-ops are not being flexible about parents buying for adult children. I had a client have a deal thwarted because of this. But the client then ended up buying a condo, which made much more sense,” Stone says.

Co-ops often have restrictions on foreign buyers, so if you’re not from the U.S., it’s likely you’ll have to go the condo route. Not only are condos more flexible when it comes to board approval of new tenants, they also often don’t require an in-person interview, which can be a real benefit if you are overseas.

4. Be transparent

Regardless of whether it’s a co-op or condominium, you need to be upfront with the board about what your intentions are from the start. Also, let them know if you and other family members plan to stay there for an extended period of time or whether your child plans to have roommates.

Keep in mind that you risk more than just angering your neighbors if you’re not honest about how the apartment will be used and who will live there. Consequences can include a fine or being sued for misrepresenting yourself to the board and for non-compliance with the house rules of a co-op or condo.

5. Find a good broker

One obvious way to avoid potential problems is to work with a qualified broker, preferably somebody with experience selling apartments to parents for their kids.

“If a co-op or condo board has a set policy against such purchases, the board will most likely not change their mind about it, even though I have seen that change happen on occasion,” says **Barbara Fox**, president of **Fox Residential**, who bought an apartment for her niece.

“A good broker should research a board’s requirements and know ahead of time how to avoid a problem," says Fox. “When a board’s laws prohibit parental purchases, you would do well to avoid steering such purchasers to that building and find a building where the board is more receptive.”

If you're not seeing enough apartments for sale in buildings open to purchases by parents (or not enough in your price range or target neighborhood), consider expanding your search to include "off-market" listings. NYC real estate brokerage Triplemint, a Brick Underground partner, uses technology to mine public records and identify owners who may be ready to sell. You'll meet and deal with owners before their apartments hit the market. (Click here to learn more.)

Not only can a good broker assist you in navigating listings and save you time, they can also help you assemble an application that has the greatest chance for success, i.e. approval. Not only do they know how to put together an attractive package, they may also know particular quirks of different boards and buildings. Most importantly, a broker can flag any possible causes for concern in an application and address them—generally, the fewer questions raised, the better.

6. Figure out financing—and the tax implications

Parents should strive to list their children on both the purchasing and loan agreements, rather than just themselves, says Mordy Husarsky, an executive vice president with Federal Savings Bank.

“It presents a lot of challenges [tax deduction-wise] when they don’t because by definition this type of an arrangement doesn’t technically fall under the category of an investment property or a second home, especially if the parents live out of state," Husarsky says.

Not all co-borrower scenarios will pass muster with a board, however.

Some co-op boards may "insist that both borrowers be on the stock and lease, which may have estate planning implications for everyone," says mortgage loan originator Marc Kunen, managing director of Luxury Mortgage Corp. Others may require that the child meet a certain debt-to-income ratio regardless of the income and asset position of the parent—and this ratio may be different than the bank's requirement.

Moreover, not all lenders deal in so-called "kiddie" loans, in which parents and child are listed as co-borrowers, Kunen says.

"In order to make this work, you have to find a lender who allows 'non-occupying co-borrowers' to be on the loan," he says. "Each bank uses different rules in approving these cases." Some banks will not do it all, he says, while others require that "the occupying borrower be employed with 'suitable' income."

In the case of a recent college graduate, he says, "a letter from the employer confirming position, income, and permanency of job is required to assure the lender that the [borrower] has a likelihood of long-term employment."

Alternatively, some lenders will "blend" the debt-to-income ratios of both borrowers and use this blended ratio to qualify the loan.

"The bottom line is to make sure the real estate agent and a mortgage professional advise the buyer of all the buying and borrowing possibilities before signing a contract or loan application," Kunen says. "I have seen too many cases where issues arise after contract signing that should have been vetted if everyone discussed the situation in advance."

7. Have a cushion

Budget extra time and money. If you’re hoping to move in in the fall, for example, start your search in the spring. Not only does that enable you to assess what’s on the market, it also allows time to secure financing, which can take up to 90 days.

Finally, closing costs are often more than people anticipate. A general rule of thumb is that buyers pay two to four percent of closing costs. For more on this, read our guide to closing costs for buyers and sellers.