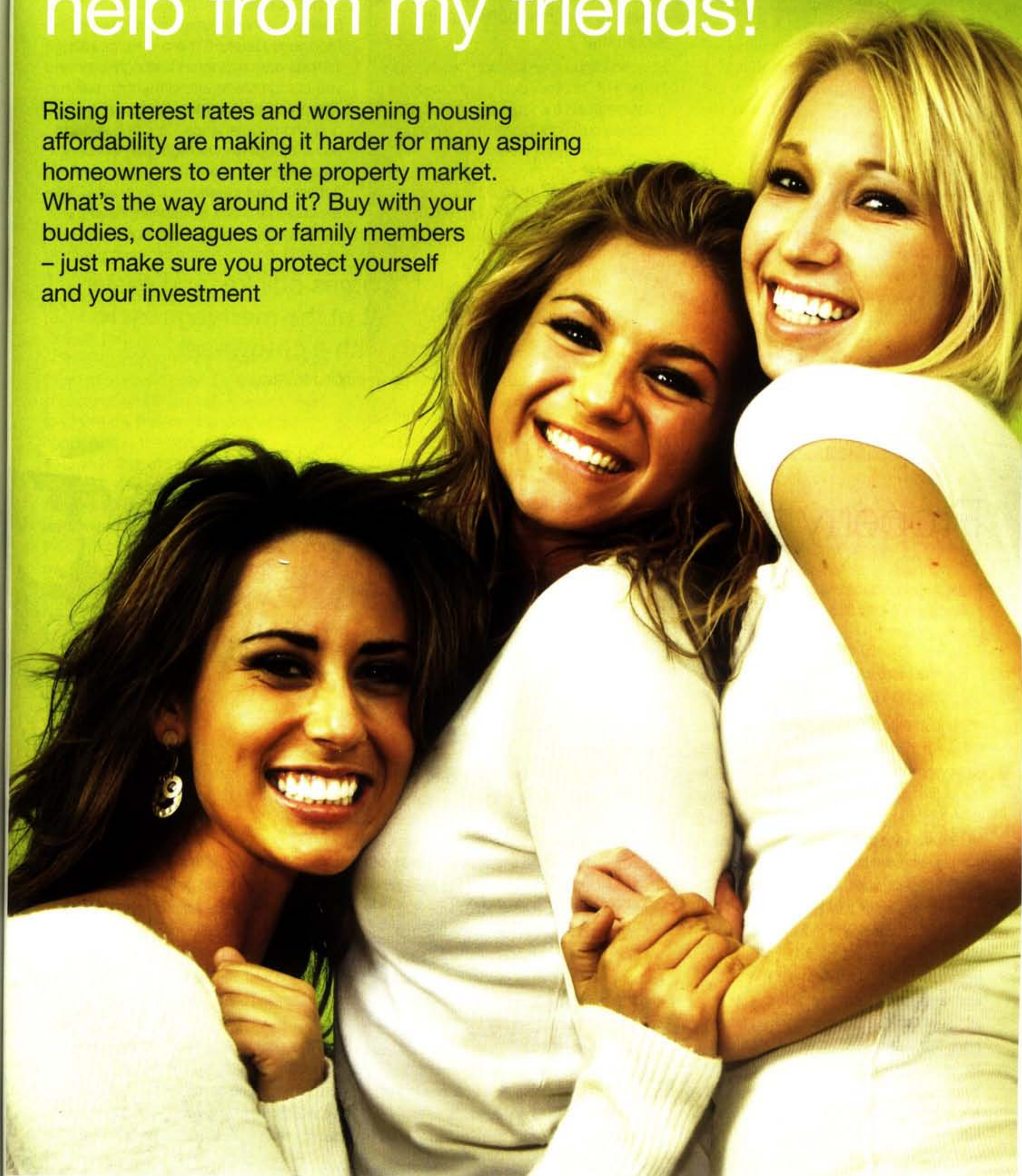
I get buying with a little help from my friends!

Rising interest rates and worsening housing affordability are making it harder for many aspiring homeowners to enter the property market. What's the way around it? Buy with your buddies, colleagues or family members – just make sure you protect yourself and your investment



Owning a home is such a powerful aspiration that some people are willing to do almost anything to fulfil their dream – including sharing their space with their siblings, friends and even with total strangers.

"If you have someone that has a similar goal of property ownership, whether it's to move in or start an investment portfolio, shared ownership may be an affordable and realistic way to enter the property market," says Edward Sunna, property lawyer at Free Conveyancing Mortgages. "Saving the deposit becomes quicker and easier as a goal, and repayment of the mortgage more manageable once split with a co-owner. The mortgage becomes a lesser burden and more affordable for both."

Buying with a friend, sibling or a partner means that you can get a bigger mortgage, pool a larger deposit and buy a bigger property in a better location. This also enables you to get into the property market sooner than doing it on your own.

"For many people this is the only way to get into the property market," says Jeremy Levitt, director with PodProperty.

Issues to consider before taking the plunge

Before you pool your resources to buy a home with another person, it's important to understand the legal and financial hurdles you might face when entering this arrangement.

1. Income

Ask yourself if you can afford your share of the mortgage and if you trust that the other co-owners can honour their financial obligations. Each party needs to weigh up the advantages and disadvantages of the agreement.

"It's important that you have similar incomes or, more importantly, disposable incomes," says Luke Sheales, national sales manager with Mortgage House. "There is no point in interest rates going up and only one of you being able to afford the increase. Take into consideration repairs and ongoing maintenance – it's one thing to pay for it but another to agree on what needs doing."

2. Goals and ideals

It's important that co-owners have the same ideals and agreement on how

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Real life...

Property trust

Owners: four friends
Mortgage: $320,000 total, equally split among four
Deposit: $10,000 each
Got: five bedroom, two-storey house

Anthony Hussey with his three friends – Shannon Young, Daniel Keohane and David Butler – had been renting together for about three years. When it was time once again to renew their lease they took a long hard look at how much money they had been spending on rent, and decided it wasn't in their best interest to continue. So they cobbled up a small deposit, about $10,000 each, and approached several banks.

"I went to school with these guys, so I've known them for about 10 to 15 years. We've been through a lot together, so this is just another step and another experience for us all," says Anthony. "We were looking for a place that we could all agree on. We finally found a five-bedroom, two-storey house with a really nice front garden for entertaining. It's got two separate living areas and the whole property is quite low maintenance."

Anthony and his friends eventually took out a $320,000 loan with Wizard, which they divided equally among themselves. "We're responsible for our own repayments so I can make extra repayments if I want to pay it off quicker," says Anthony.

Usually, such arrangements are backed by a legally binding co-ownership agreement, where each party's rights and liabilities are clearly documented. However, the four friends decided that such legalities were an unnecessary complication for them.

"We have all our names on the title, but we didn't enter into any agreement," says Anthony. "We're basing everything on trust and friendship. We just trust that friends will do the right thing. We had a big discussion before we moved in.

"We realised that we wouldn't get any benefit financially if we didn't hold on to it for at least five years. Everyone realised there was no point selling his share within at least the first five years, so in a way we have an agreement there. If we go our own way or want to move out, we just turn our share into investment property and rent it out."

His advice? "You really have to know the person well. You have to have a clear understanding about what you're getting yourself into.

"It's probably a good idea to look at co-ownership agreements. For us it worked really well without such an agreement, because we've been friends for many years and we've built up solid trust with each other."

the property will be used – either as a residence shared by the co-owners or as an investment property.

"You need to be very careful that the person you're jointly buying with has the same objectives and plan as you. For example, if it's your intention to purchase a property as a short- to medium-term investment, then make sure your purchasing partner doesn't want to use the property as a long-term investment," says Sheales.

3. Risks and mitigation strategies

Understanding the risks and drawing up strategies to mitigate them is paramount when buying property with other people. These should include contingency planning for a change in circumstances, such as if one party loses their job or one party wants to get married or move into a relationship that doesn't include you.

Sheales recommends having a regular meeting to revisit your original goals and plans where you adjust according to where the market is and what is happening in the economy.

4. Ownership structures

How you structure the property ownership depends largely on your particular situation and your reasons for buying. Most common types of ownerships are tenancy in common and joint tenancy.

Tenancy in common

Friends buying together often opt for tenancy in common, which means that two or more parties each get individual shares in the property and a separate title. Each tenant (owner) can sell or deal with their interest at any time without the need for the other co-owner's approval, unless they have a co-ownership agreement in place.

The interest of each tenant in common can be included in a person's will, so in the event of their death their interests do not automatically go to the surviving owners. For example, if A and B buys a property and B passes away, the property does not automatically go to A. The property will vest in the estate of B to be distributed to B's beneficiaries. If one of the owners dies without a will, that person's interest will pass to his estate under the rules of intestacy.

"This scenario can be problematic as it could lead to a forced sale of the property by the estate or allow for ownership by a party that is not wanted by the surviving owner," says Sunna.

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Luke Sheales, national sales manager, Mortgage House

Joint tenants

With joint tenancy titles, owners are entitled to physical possession of the whole property and have no separate shares from the other. They also must act together when dealing with the property.

When one joint owner dies, the entire interest of the deceased automatically goes to the surviving owner, even if his or her will states otherwise.

Mortgage options

The process of securing funds for your property purchase involves the same criteria as when you are taking out a mortgage by yourself. The banks will still assess your creditworthiness and your ability to service the mortgage.

Whatever mortgage type and structure you choose, Sheales recommends taking out a loan with multiple splits with separate payments attached to it. For example, you buy a property with a friend for $400,000 and you have a deposit of $50,000 and your friend has $30,000 plus costs.

By having two splits you can have your own loan split for $150,000 and your friend can have his or her own loan split for $170,000. You can choose to pay extra repayments individually and reduce the amount of our own loan balance. You can pay your entire portion off and have no monthly payment while your friend still owes $170,000. "It's essential to understand that no matter how many partners or parties are involved, everyone will have to act as a guarantor for the other parties' loan," he says.

Understanding the risks

While sharing the financial burden with friends and family has great advantages, the risks are substantial and can be financially damaging if circumstances change among the co-owners.

In any co-ownership, you're not the only decision-maker. If the situation changes unexpectedly, such as one person dies or moves on in terms of relationships or if their objectives change, this can lead to litigations and even defaults in the mortgage.

Also be aware that the bank always comes first regardless. "If you do enter into an agreement, the bank's interest is going to be paramount above everyone else's. When you sell, all the money owed will be taken first before your equity can be split," says Sheales.