Is it wise to buy a property with friends and family?

With property prices continually rising, some solo purchasers are being priced out of the market so are looking at partnering with a family member or friend to buy either a home or an investment property

CONSIDER John and Peter who are renting in Sydney and want to buy an investment property. They each have savings but, individually, don't have the borrowing capacity. However, together they can afford a good property not too far from Sydney.

"I couldn't do it alone," says Peter, "but purchasing with John, whom I've known for years, works financially, gives me comfort and halves the bills."

On principle it's a great idea, but be aware of the consequences. Here are a few points to consider:

Make a will: Sounds scary, but what happens if one party dies?

Draw up a 'co-ownership' agreement: You lose your decision-making power as you cannot act alone. You are friends today, but what about tomorrow? Costly disputes can be avoided if potential issues are identified and solutions agreed before purchasing a property.

Use a lawyer: A lawyer will help with both the will and agreement, and ensure you have rules and understandings in place. The agreement should cover situations such as:

- If you wish to sell your share in the future, how will this work? Will the other party have veto rights over the buyer? Your co-partner may want priority over another buyer (known as "right of first refusal").
- How will you manage property expenses? Someone needs to be in charge of paying bills. Unpaid dues, with your name on them – especially the mortgage – may affect future creditworthiness.
- Should there be a sinking fund for future unexpected expenses?
- What happens if one party wants to renovate and the other doesn't?
- Who decides if or when you should find another managing agent?

OUR EXPERT

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Obtaining finance: You will be "jointly and severally liable" for the loan (even if it is split for ease of management). So you are responsible for the debt of your co-investor as well as your own.

Future financing: If you require another loan down the track, you will be assessed on the basis that 100% of the existing mortgage is yours, even though you only own a portion of the property. So your future borrowing capacity will be impacted.

Property ownership split: You can elect to purchase a property 50%–50% (called "joint tenants") or any other combination, eg 60%–40% (called "tenants in common"). For an investment, the split might be driven by tax considerations. So who gets what, and who pays what? There are different inheritance rights depending on the ownership structure.

Peter and John hired a lawyer and signed a comprehensive agreement. Later, when Peter had a change of circumstances which required selling his share, John's sister bought it based on the agreed co-ownership formula.

So, investing with the right people can be a positive and successful experience. It is about making decisions with your eyes wide open and exploring your options thoroughly. YIP

NEED HELP WITH YOUR PORTFOLIO?

Contact Philippe at Multifocus Properties & Finance and get a jump-start on your portfolio with expert advice.

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