MONEY WEEK 2022

FINANCIAL ADVICE NZ

Buying property with friends and family

Have you thought of teaming up with a sibling or a friend to buy a house?

It's not a silly idea and it's not as uncommon as you might think.

There are big benefits but there are also risks, so let's look at them.

The benefits

The most obvious benefit being the power of multiples.

Multiple savings mean potentially double the deposit you will have, and two incomes means double your servicing ability (loan repayments, insurance premiums, and rates), and shared maintenance costs.

The flexibility that comes with co-owning is it also takes the pressure off, as the burden is now shared. A problem shared is a problem halved.

And it could be fun. Learning together has benefits, and certainly two minds are better than one when it comes to ideas for colour schemes and renovations for example.

If done properly and carefully, however, the reward can be a great launching pad into property.

Buying a property with friends also has some Risks

Sometimes money with friends doesn't mix well, so there are risks in taking the co-own approach.

So, let's look at some of the pitfalls to watch out for.

First up, it's essential all parties establish and agree on their long-term goals and investment priorities, and what they want to get out of the property.

Is it going to be a long-term investment where you live in it and take a market gain in a few years, or a short-term do-it-up-and-flip-it? Are you agreed on what happens should the market take off or perhaps drop off.

You also need to be clear on the servicing of the mortgage and the long-term ownership plans.

Here are some questions that need answering before you sign anything:
What is the structure of ownership?
Who will live in the house?
What percentage of the property are the parties going to own?
What happens if one of you can't meet payments (will the other agree to bail you out for a set time to be paid back over time)?
Who will pay the bills if this happens?
How are expenses and maintenance divided up?
How do you make decisions about renovations?
What's the exit clause if one of you wants out?
Will your partner have first option to buy your share, and vice-versa?

Put it all in writing

One rule of thumb, no matter who you are going into a co-own arrangement with, is to get everything in writing – even if it's just an email. Don't rely on conversations, no matter how much you trust a person. Because if something goes wrong between people with even the best of intentions, just relying on memory is not enough.

You could, of course, go down the formal route of getting a lawyer to draw up an agreement for you.

There are options a lawyer could look at, but the most common when buying with friends or family is a Tenancy in Common.

This is where everyone owns the property jointly, in either equal of unequal shares. It usually comes with a Property Sharing Agreement, which details how outgoings, expenses and maintenance are paid, and how the property will be dealt with if one shareholder decides to sell their share.

That may sound a bit extreme, but it's the safest way to ensure everyone knows where they stand should circumstances change for any of you. And if it means you avoid losing your friendship, then the cost of a few hundred dollars each may be worth considering.

It is worth noting not all banks allow you to combine incomes and some banks require affordability to be jointly and severally liable – so you will have to do your homework as to which bank can be used.

There is no doubt Looking at joint ownership as an option is sensible, and it can certainly work, particularly in a rising market. Get advice. And don't rush it.