

Property

Buying property with friends and family

By Perrie CroshawAAP August 19, 2009 12:36pm

- Co-buying is one way into property
- A contract is critical to make it work
- **Interest rates:** Full coverage

Can't afford to buy your own home? You might consider buying a house or apartment with your best friend, sister or brother.

Friends and family are joining forces to take advantage of the first home owners grant boost before it reduces in October and cuts out in December.

"Co-borrowing remains a very small segment of the total lending market," says Kevin Sherman, managing director of mortgage lender, myrate.com.au.

"As such, the actual raw numbers are not significant but the strong trend change is.

"In the past, we would see two or three co-borrower applications out of every hundred received whereas now we are now seeing 8-10."

Mr Sherman believes buyers are suffering at the hands of tighter bank lending criteria.

Pre-global financial crisis, some lenders encouraged borrowers to see the first home owners grant (FHOG) and boost as their deposit - RAMS ran an advertising campaign saying "No deposit? No worries."

But times have changed. Lenders now want to see deposits and a genuine saving history.

One way to get a foot into the property market

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before the boost runs out is to join deposits with a friend or relative.

Buying together ... Australians are getting together with friends and family to buy property / File

Co-buying can be a great strategy, says James Sheffield, general manager of mortgage wealth at Commonwealth Bank.

He should know, because the first property he bought was a half-share in a London flat with a friend.

"And after many years we are still good friends, even though I sold him my share at a loss when I decided to move to Australia," Mr Sheffield said.

A contract is critical to making it work

There are many 25-35 year olds in urban areas who are "multiple investors" in property, either to live in or for investment purposes, he said.

"Co-owning shouldn't be fraught with problems if you get advice at the beginning of the process," he said.

Along with many other lenders, the Commonwealth Bank offers a Property Share Loan arrangement to help you co-own.

"It's like two separate loans," said Mr Sheffield.

"But if one person defaults, you are both liable. We ask people to get independent legal advice.

"Think about what might happen if you become ill, if one of you defaults or moves overseas to work or go backpacking for a year.

"Consider how long you might own the property, when you might want to sell, what you will do with capital gains.

"You need a document which sets this kind of stuff out between the two buyers – issues like ongoing maintenance, renovations, what if property is damaged and can't be lived in, what about insurance.

"If you don't clarify these things up front, you can end in tears."

 **HAVE you bought property with a friend or relative? Tell us below.**

Carolyn Miller, an advertising executive, said buying her first home with a girlfriend in 2004 was a great experience and started her on the road to financial independence.

But she did take time to set up an agreement.

"I'd known my friend for about 10 years," she said.

"It was a simple decision really. We were both living with our parents at the time. I figured it was going to take me another two years to save a deposit. So we took the plunge together and paid

\$430,000 for a three-bedroom property.

"We had contracts drawn up between us – that legal cost was an extra \$5,000 on top of our buying costs. But it is really important to have an agreement.

"We both qualified for a FHOG and arranged a mortgage with Members Equity - the procedure was pretty standard.

"We had two individual loans but they were linked in that we couldn't redraw without the other person as signatory.

"We both lived in the property for a few years, but I have since moved out and bought my own apartment, borrowing against my share of the house as collateral for my new loan," Miller says.

Co-buying tips from Kevin Sherman of myrate.com.au:

- Agree upfront all the terms for entering into this arrangement together, and make sure you have proper documentation to support these decisions
- If you're confused on how to look at it, treat it like a pre-nup to a marriage
- Envisage the worst case scenario – what would happen if your friendship break down? It probably won't but you have to be prepared
- Go in equally if you can, one party holding the power is recipe for disaster!

How the FHOG and boost works with co-buyers:

If two non-related people (that is not spouse or partner) who are buying their first home jointly to increase their borrowing power apply for the FHOG and and boost to buy the same property, only one of them will receive the funds, not both.

Until 30 September 2009, eligible first home buyers will receive an additional \$7000 if they purchase an existing home or \$14,000 if they buy or build a new home. Between 1 October 2009 and 31 December 2009, the Boost will be halved to \$3500 for the purchase of an existing home and \$7000 for the purchase of a new home.