Buying a property with friends

If you're looking for a creative way to overcome being locked out of the property market by rising prices, buying a house with a group of friends may be a solution. It can also be a minefield though, so here's how to avoid a blast.

While the excitement of banding together in such a life-changing moment can put everyone on a bit of a high, you need to plan for situations in which things might go wrong.

It's essential you have all been completely upfront from the start about what you want to achieve by purchasing property together, as well as your personal expectations about timelines for purchasing the property, paying it off and selling it. And all of this must be documented in a co-ownership agreement.

Your finance broker can refer you to a solicitor of conveyancer with experience in working on co-ownership agreements, who can advise and create yours and make sure it is suitable, providing the necessary legal protection for everyone involved.

The big question will be what structure your ownership takes. There are two options: joint tenants and tenants in common. Joint tenancy is the most common ownership structure in Australia, as it is how most family homes would be owned.

However, because friends are less likely to share assets and long-term debts than a couple, and less likely to will their assets to each other, the 'tenants in common' model would usually be more suitable for this situation.

Under this model, each person owns a specified share of the property's value. These shares may be equal, but needn't be. So, if you are willing to contribute $500,000 to the price of a property, but your two friends are not quite at that stage and only comfortable contributing $250,000 each, you could own a 50% stake while they each own a 25% stake. Keep in mind, each stake is in the property's value, not control of the property. Legally, under this model, each owner has the right to full access to the entire property.

The co-ownership agreement created in collaboration with your conveyancer should set out how the costs of maintenance and insurances are divided, as well as how sale proceeds will be divided.

It should also cover plans for depreciation and capital gains tax, selling a share of the property to another co-owner, choosing tenants or determining rent, selling a share of the property to a third party (otherwise there are no restrictions on this under the tenants in common model), and selling the property altogether.

If all purchasers are planning to occupy the property, the agreement should make plans for if one wants to move out but continue their ownership. Under the tenants in common co-ownership structure, the other owners occupying the property would not be obligated to pay rent to the one who has moved out, as long as they are not restricting that co-owner's access to the property.

As is the case with any property purchase with any structure, each co-owner should have an up-to-date will that specifies who inherits their stake in the property.

There are many more considerations when buying property jointly, so speak to an expert early on to make sure you're doing it the right way.

An experienced Finance Broker like myself can guide you in the right direction.