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CO-OWNERSHIP: WHAT ARE THE RISKS?

What are the risks in co-ownership and how can I mitigate them?

1. Type of agreement and liability
2. Selling the property
3. Mortgage repayments
4. Maintenance and bills
5. Renting out the property

In part two of our information series we look at the considerations you should take before entering co-ownership, whether you match on Mortgage Mates or buy with a partner, family member or friend. Use our information and considerations below to safely co-own a home together.

CONSIDERATIONS:

1 Type of agreement and liability

The first consideration is establishing which form of co-ownership works for you. For our Mates, when we talk about co-ownership we are only talking about Tenants in Common*. For anyone considering a Joint Tenancy we would strongly recommend you seeking additional, specific advice as the legal implications are more significant. The co-ownership agreements we will talk about below are unlikely to support a Joint Tenancy sufficiently for this information to be relevant in this instance. A co-ownership agreement is a legally binding contract which can be used to specify how you own your home together. It can be used to set out your repayments schedules, which insurances you require to own a home together and even when you would be able to sell the property. We have a variety of contracts available from third parties through our 'What's Next Page' that can go into as much or as little detail as you require. Co-ownership agreements can be used by new Mates or individuals with existing relationships, to safely own a home together.
*The space of fractional/co/shared ownership is increasing on a daily basis in Australia. Some options for ownership such as BrickX, Bricklet and DomaCom may look like they fall under the co-ownership bracket but each of these options vary slightly. Again, the co-ownership agreements we talk about here may not be suitable in these instances.

2 Selling the property

The most obvious concern for our Mates comes at the point of sale of the home. What happens when one co-owner wants to sell but the other doesn't want to? This should all be clearly defined in your co-ownership agreement and discussed at the beginning of the journey.

Selling and buying a home and the associated move is expensive and disruptive. One of the first conversations our Mates should have, is how long they are planning to own this property for. Is the intention to live in the property for the duration of the ownership and will it be kept on as an investment in the future. By understanding these needs early on you can prevent issues or misunderstandings later on.

Understanding how to sell a proportion of a home in the future is also something to consider as part of your agreement. Will you enable your Mate be offered first refusal if and when one of you decides to sell and if not, which platforms can you use to sell a part of a property? There are lots of options out there- but knowing which you will use from the beginning will alleviate any concerns this may cause.

3 Mortgage repayments

Understanding your financial liability as a co-owner is extremely important. Buying as Tenants in Common will mean you are jointly and severally liable for the debt on the property. To mitigate this risk, you may request in the co-ownership agreement to have income protection insurance as part of your financial packages, or that a savings amount for a number of months mortgage payments are kept in a joint account. This will enable both Mates a level of relief if one or both owners are out of work for a period of time.

Being honest and open from the beginning about what you are looking for and about your hopes for the future, will ensure you have a smooth relationship with your Mate. Asking the hard questions, such as what if I find a partner, or what if I want to start my own business from the property- will ensure you can both plan for the future whilst creating your first home. If you would like further independent advice on which Mortgage you should undertake and what the financial impact of this particular mortgage may be, reach out to the financial providers based on our website. They will be happy to advise you about which Mortgage works best for your co-owning needs.

4 Maintenance and bills

When co-owning a home together (either to co-live or co-invest), it is important to consider the every day activities as well as the start of the home ownership journey.This means that whilst it is important making the right choice for your mortgage, it is equally as important to understand how bills will be paid and who will complete any maintenance requests.

These questions will vary based on whether the house is an investment home or a co-live property. For example, if you are buying as part of an investment property, you may decide to put the responsibility of bills and maintenance with the Real Estate agent. This enables you and your co-owner to place the management of the property with a third party and simply receive your return on investment moving forward.

However, if you are co-living together, it is worth discussing the inclusion of this information in the co-ownership agreement. You may decide to pay a set amount in addition to the mortgage, to cover any costs in the property. You may also agree to pay for a maintenance person to manage any repairs on the property, so it is clear from the outset that this will be the process. If you are detailed focused, you may agree to do three quotes per repair before committing to a tradesperson to manage the process moving forward.

If you want to split the bills as part of a co-living arrangement, there are apps and companies who can assist you to manage these effectively. To find out more, reach out to Daisy for more information.

5 Renting out the property

The decision to rent out the property can apply both in the beginning, if co-owning as an investment property or, in the future, when buying as a co-living property.

It is important to know how and when you want to rent a property out when you start your co-ownership journey. It is one of the 'motivators' now available on our website and allows you to determine, very quickly, whether your matches have the same housing needs as you.

Mortgage Mates enables both parties to live in the home, one person to live in the home alongside an investor, or for both people to own as an investment. Depending on the needs of both co-owners you will need to dertmine and log in the co-ownership contract whether it will it be a traditional rental property and if so, will it be rented via a real estate agent, or will it be a temporary rental via an Airbnb style website? If it is the latter, will this option be managed by the investors or a real estate agent, and how often will it need to be rented to ensure it meets any financial requirements?

Whilst we know a Mortgage Mates house won't be a forever home for most Mates, it can be a stepping stone into your forever home. If you and your Mate buy to co-live at first, you may end up moving out of the property and considering owning this home as an investment property. This means you continue to gain equity and build wealth, whilst also going on to live in your first solo home.

Again we suggest having these conversations early on with your Mate, perhaps agree on a five year plan, one which talks about how you co-live, and then how you hold the property after this, perhaps renting out for a further five years and then selling the house to raise funds for the forever home.

There is no right answer to how you chose to take your journey- but having clear steps will definitely make it easier to manage long term.