

You can buy with a little help from your friends



For many first home buyers and investors the affordability crisis is putting the dream of owning their own home or investment property out of reach.

We all know that Australia's housing market is one of the least affordable in the world¹. Housing affordability is affected by many factors including slow land releases and overly restrictive development regulations (both likely to persist for some time).

An increasing number of Australians are turning to co-ownership as a solution².

Co-ownership allows a small group of individuals (friends/family/colleagues) to pool their resources and purchase property together.

This can be a great option for many individuals allowing them to step into or expand their existing property ownership earlier than expected.

There are a number of benefits from entering into a co-ownership arrangement.

This arrangement:

- allows you to enter the property market sooner as it is easier to save a deposit together;
- reduces the costs of entering the property market individually as the stamp duty, conveyancing costs and other upfront purchase expenses are shared; and
- gives the potential to borrow more for the property than if you applied individually for a loan as your borrowing capacity is pooled. This enables you to buy more with your money (a larger home, better suburb, more features and facilities...) than if you were purchasing on your own.

Co-ownership can be used to purchase property of any type. Owner occupiers currently make up around 60% of all co-ownership purchases, followed by investment properties with 30% and the remainder being spread between holiday homes, commercial property, rural properties and communes.

¹ Eighth annual Demographia International Housing Affordability Survey

² www.lendingcentral.com/2009/07/15/co-ownership-products-tap-into-growing-market

Realising the growing number of co-ownership purchases has encouraged lending institutions to develop specific loan products to support them.

This new way of financing allows the co-owners to operate separate loans secured against a single property, through a single lender. This offers the parties the ability to:

1. structure their loan portion in a way that suits their individual circumstances and requirements, eg you can select to fix a portion or have an interest only repayment, while your co-owner may prefer a variable loan;
2. have a different share of the property and make repayments accordingly; and
3. borrow more combined than if the individuals applied separately.

The issue of joint and several liability for each other's debts still applies.

In general a lender will require that all parties guarantee each other's loans. This means that if one party defaults then the property secured against the loan will be at risk should the remaining parties not be able to cover the full repayments.

Given these requirements it may be worth obtaining mortgage protection insurance to protect the mortgage if one of the parties is not able to meet their repayments due to illness, death or temporary unemployment.

Co-ownership introduces more complexity than a typical individual owner-occupier or investor purchase and you should ensure that you establish a borrowing arrangement to **protect your investment**.

A co-ownership agreement is recommended when entering into a co-ownership purchase.

The agreement sets out a legal framework should a number of issues occur such as:

1. a party defaulting on payments,
2. how decisions relating to the property will be made,
3. how expenses will be shared,
4. a dispute resolution process, and
5. an exit strategy should a party wish to sell their share in the property.

Locating finance for a co-ownership purchase has been a tricky area in the past, but options are improving. With growing lender support, there are now more options available to make home ownership a reality for more Australians today.

If you have been considering a co-ownership option then we can help locate an appropriate lender for your personal situation and your prospective co-owner.

? Ask us to send you our copy of the answers to our most frequently asked co-ownership questions:

- What happens if I want to sell my portion?
- Will I still get the First Home Owner Grant if one of the owners has already received it?
- Do I have to live in the property?

Call the office today for more information on structuring a co-ownership purchase or to find out how much your co-ownership group could be able to borrow.

