Shared ownership can be a trap

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In recent years when home loans have been so difficult to come by, potential buyers have often been urged to pool their resources with friends or family members so that they can qualify for a bond and get on the property ladder as soon as possible.

However, says Berry Everitt, MD of the Chas Everitt International property group, not enough has been said about the problems that can arise in shared ownership or partnership situations, and what needs to be done pre-purchase in order to counter these.

Some of the potential difficulties with this type of purchase were highlighted recently in a study by Cambridge University of the effectiveness of a government-backed shared ownership scheme in the UK, he says.

It found that many homeowners in such schemes had become trapped, unable either to sell their shares in properties they had bought with other people, or to buy out their partners' shares and “staircase” to full ownership of the properties.

The report found that out of 145 000 shared ownership properties sold since 2001, just 27 908 had been staircased to full ownership, and it also highlighted mortgage difficulties, arising mostly from one or other partner becoming dissatisfied or disenchanted with the joint ownership arrangement.

And writing in the Property Signposts newsletter, Everitt says that locally, the situation is much the same, with the biggest risk in joint purchases being that one partner wants to sell when another doesn't, “because there's an extremely limited market for half-a-house when one partner is still living there”.

The partners can and should of course draw up an upfront legal agreement setting out the procedure if this situation should arise, he says, but the fact is that things will almost inevitably come down to the half-owner who wants to stay either having to quickly raise the money to buy out the other half-owner's share (and pay a second lot of transfer costs) or being forced into selling (possibly at a loss) so that they can both be free.

“In addition, it is worth noting that most banks are not keen any more on joint purchases by people who are not married or life partners. Currently only one will approve a multiple bond account with each partner being responsible for his or her share of the debt. The others will only allow one bondholder – which means one partner is legally responsible for the mortgage debt, and will be stuck with it if for some reason the other partner can't or won't pay their share.”

Other factors to consider when buying a property with a friend include the need for mortgage protection insurance, as there is no obligation from one partner's family if that person becomes disabled, retrenched or even dies to cover his or her share of the outstanding bond, and this could once again result in financial hardship for the other partner, Everitt notes.

“Both partners need to agree to maintain such insurance cover, as well as their share of the homeowners' insurance that covers their property against fire, flood or any other disaster that could damage the structure.”

To prevent resentment creeping in and relationships breaking down, friends who are buying a property together should also try to choose one that allows each a certain amount of privacy and equality, including separate bedrooms, bathrooms and parking areas, and may also find it useful, before signing the offer to purchase, to draw up “house rules” covering property maintenance, pets, houseguests and other potentially contentious issues.

“In short, shared ownership is no picnic, and arrangements in which parents or other older relatives agree to subsidise a first purchase for a young buyer or couple (usually by paying the deposit) are on the whole a much better idea, especially if there is a legal agreement in place that these older ‘investors’ will get their stake back and a share of the profit at a future date when the property is sold.”

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