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MONEY MATTERS

Perth median rents rose $15 a week, or 4 per cent, during the September quarter, taking the annual increase to 6.8 per cent.
Source: REIWA

Some friendly advice

Christina Cridland

WITH rents remaining high and house prices out of reach for many young singles, more are looking to buy homes with friends.

But Perth lawyer Brett Davies, of Civic Legal, which operates a big property-settlement division, has some words of warning for people heading down this path: "You are facing disaster if you buy a property with a friend and don't have a legally enforceable agreement.

"People's circumstances will change – they can lose their job, go overseas, get married, and you need to have an agreement that deals with that."

Mr Davies said the information service www.LawCentral.com.au, which is associated with his firm, had recorded a 118 per cent increase in people seeking advice on buying a home with a friend in the past 18 months.

He said a buy-a-house-with-friends agreement was a safe way to get a foothold in the property market.

"The agreement clearly sets out the nature of the relationship between all your friends – while they are still friends," Mr Davies said. "We call the relationship a syndicate. It just sounds better than calling it a collective of mates."

Mr Davies said people sometimes asked him that when everyone got along fine, why did they needed legal documents.

"Those are famous last words of many people who do business with friends," Mr Davies said.

"Because everyone gets along well now doesn't mean that you always will."

REIWA also advises people considering buying a property with friends to get professional advice from a legal practitioner.

A REIWA spokesman said potential buyers would need advice on such things as:

- The best type of ownership between the parties.
- What would happen if one of the owners wanted to leave the arrangement.
- Would the exiting owners have any rights in a situation of buying out the owner who wanted to sell?

"Also, if a buyer needed to borrow money to purchase the property, they need to find out what security their lender would require over the property, what would be the effect of that borrower defaulting on their loan payments?" the spokesman said.

"Prior to entering into a contract, people should always think about the worst-case scenario and plan accordingly.

"It probably won't come to that, but it's best to have an agreed strategy in place so you can work through any changes to your circumstances in the fairest and simplest way."

Mr Davies said some of the matters the agreement defined were:

- Each party's share of the capital and any income from the venture.
- Whether parties could borrow against the property.
- How the parties can end the agreement.

Brett Davies says sharing the cost of buying a home with friends can work, with a bit of planning. Picture: Theo Fakos

Trust gives flexible option

ANOTHER great way for a group of people to pool resources to invest in property is via a unit trust, Brett Davies of Law Central said.

The key players in a unit trust are the trustee and unit holders.

Mr Davies said a unit trust offered greater flexibility for unit holders than a buy-with-friends agreement because unit holders were able to freely transfer their unit holdings among each other - subject to transfer duty and capital gains tax.

Under the terms of the trust, they could transfer their units to third parties, too.

Units were much the same as shares in a company in that respect.

With a unit trust each unitholder had a set number of units, Mr Davies said. If you had 40 units and your friend had 60 then the profits must be distributed in that proportion.

Like all trusts there is a figure head called a trustee. The trustee could either be some of the unitholder or you can set up a corporate trustee.

And if it all went well, the unit trust can buy another property later.

The unit trust offered the flexibility of acquiring new trust assets without requiring a new agreement because the unit trust lived for up to 80 years, Mr Davies said.

Get a tick on a loan

IF you are buying property in the new year, now is a good time to get pre-approval of your loan so you don't miss out on a potential purchase over the holiday period.

So says Mortgage Choice acting head of corporate affairs Belinda Williamson.

A Mortgage Choice survey of first-home buyers looking to purchase before February 2013 found two-thirds of respondents intended to apply for loan pre-approval.

"Our survey showed primed first-home buyers are making the wise choice to get their property finance pre-approved by a lender," Ms Williamson said.

Pre-approval helped buyers hone their property search and shop with confidence when negotiating a purchase or bidding at auction.

Mortgage Choice's top tips for potential borrowers preparing for home loan pre-approval:

- Organise your deposit and evidence of savings. You generally need a deposit of at least 5 per cent of the purchase price, plus up-front costs. But you will need to show evidence of a genuine savings plan, such as bank statements that illustrate a savings strategy for at least three – and up to six – consecutive months. Some lenders consider rent payments as savings evidence.
- Check your credit history. Grey areas in your credit history, such as bill defaults and prior loan and credit applications can affect your loan pre-approval application. Resolve any issues with the relevant debt provider before you apply. For a copy of your credit file from mycreditfile.com.au you must provide personal details, including your address, employment and driver's licence.
- Prepare your paperwork. Gather evidence of your employment, income, assets, liabilities and expenses. You will also need to provide your driver's licence or other ID, recent pay slips, tax returns and bank statements.