

Courting co-owners to buy a house online may be riskier than it looks

Written by Garrick Small, Associate Professor, CQUniversity Australia

Digital platforms are offering people who couldn't afford a house on their own, the opportunity to divvy up the costs with others. But co-ownership of real estate can be a risky and potentially costly business.

In an environment of [high residential prices](#) where families are becoming a smaller [proportion of households](#), and permanent relationships are giving way to transient and more distant connections, digital platforms for co-ownership are filling an emerging need.

Co-ownership permits a whole range of sharing options. For example, it allows an occupant to be a part owner in their own home even if they cannot afford to buy the whole thing. It also permits an investor to take a smaller position as a promise of a better relationship with the tenant.

Read more: [***The forgotten 660,000 locked out of home ownership***](#)

However, buying or selling a property involves legal, financial, statutory and agency costs that mean that even moving across the road can cost about half a year's income. This means that you need to be sure of what you are doing and reasonably confident that you will not be changing your mind about your investment too quickly.

Digital platforms [like Kohab are using](#) the legal relationship known as "tenancy in common" to facilitate co-ownership. It permits the separate parties to have a defined share of the house and to transfer their interests independently.

But this still presents considerable practical risks. Someone wanting to sell their share of a house is likely to find a limited market of other people willing to take over the part ownership, and they are likely to have a weaker negotiating position in selling.

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The remaining co-owners of a house also have no control over who the incoming partner will be. This may limit their preferences in relation to how the property should be managed. It can make remaining with the investment uncomfortable and lead to even more turnover of ownership and the prospects of sale at a discount.

How co-ownership has changed over the years

Shared real estate ownership has been evolving for some time. The strata title system was [introduced over 50 years ago](#) when it became necessary for single buildings to be owned by multiple people.

Company title co-ownership [was unpopular](#) because the co-owners did not always agree on how to manage their property. It was also unpopular because sale of part-interests was difficult and often settled at a discount to true value.

However, it overcame the problems of management and resale that dogged the earlier company title. This approach used company shares to split ownership of a property between several investors.

Read more: [**Bond aggregator helps build a more virtuous circle of housing investment**](#)

Australia was later an innovator in the development of property trusts that applied the company model, but with someone to manage the the shared ownership of complex properties.

These property trusts have [blossomed as an investment](#) and are now commonly known by their US name - real estate investment trusts. These trusts usually focus on commercial buildings where they provide a vehicle for small investors to access property investment in major real estate assets.

Where digital platforms come in

Online applications such as [DomaCom](#) or [BrickX](#) have brought the trust model online and applied it to smaller properties that are not usually the target of these traditional trusts. BrickX for example divides its selected investment properties into 10,000 “bricks” and allows investors to buy bricks.

This permits up to 10,000 owners for an individual property. It also allows small investors to spread their funds across multiple properties to control their risks. DomaCom follows a different strategy to achieve the same goal of allowing a large number of investors to be involved in individual managed investment properties.

Then there's new apps like [Kohab](#). Its point of difference is that it operates on a smaller and perhaps more intimate scale.

It does not rely on a crowdfunding approach, but uses its online platform to connect owner/occupiers and investors for the purpose of co-ownership. It does not produce real estate investment trusts, but does facilitate the co-ownership of individual dwellings by more than one owner.

In capital cities it is getting harder for individuals and families to afford properties. Co-ownership with others, either as shared occupants, or distant investors, is one way to cross the rent/buy gap. But it's not without risk.

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