

Don't buy property with friends or significant others without written agreement beforehand

by Ilyce_Glink

Q: A friend and I bought a house together three years ago. We each own 50 percent of the property and are listed as equal owners on the title. My friend is now moving out of town, but my boyfriend and I would like to stay in the house for another two years. The house has risen in value by \$75,000 since we bought it. I cannot simply buy her out at the current value of the property because the new mortgage would be beyond my means. But my friend would like to take some of her profit from the house and buy a new car, which she'll need in her new town. Is there a good compromise that will give her some money, yet allow me and my boyfriend to keep the house with a reasonable mortgage payment? Any suggestions would be helpful.

A: You can't blame your friend - you each invested in a property, which has risen in value by \$75,000. She wants her \$37,500 and you want to continue to stay in the property. Now, it's time for you and your friend to have a heart-to-heart about this property and what should be done with it over the next couple of years. There are a lot of issues that need to be discussed. Let's say you take out a home equity loan to give her some of her equity, and over the next two years, the house appreciates another \$75,000 in value. Will you then sell and give your friend her \$75,000 (minus what she has already received)? Will she continue to make half the mortgage and tax payments and help pay for any repairs needed over the next couple of years? Or, will you insist that because you've lived in the house and taken care of it, you're entitled to all the money. You can see that unless you sell today or completely buy out your friend, these are going to be significant issues that could ultimately derail your friendship. You and your friend should talk together and then hire a real estate attorney to help you sort out these issues and write up a partnership agreement that spells out each of your responsibilities to the property. Finally, if you and your boyfriend can't afford to buy out your friend, I think you should move. Take the profits (which would be tax free since you have lived in the property as your primary residence for the past 2 years) and use that to buy a new property for yourself and your boyfriend. But before you do, you and your boyfriend need to have a discussion about where your lives are going and what will happen to the property if you break up. Believe me, I get a lot of letters from people who bought property with partners or significant others, and who were left financially devastated because they didn't discuss these issues ahead of time - and then get the resolutions in writing.

Q: It seems that over the past 10 to 20 years, real estate prices have increased at a rate that far exceeds inflation and the general increase in the cost of living. If this observation is accurate, how do Realtors justify maintaining a 6 percent commission on the sales price? Aren't they effectively getting a whole lot more money for a relatively same amount of work? I'm sure I'm missing a key point here, but I'm not sure what it is. Please help me figure this out.

A: While the average commission used to be 6 percent, or 3 percent per side of a transaction, the average commission rate has dropped fairly significantly over the past few years, thanks to efficiencies and new business models put into place via the Internet. According to the National Association of Realtors (NAR), the average commission is now around 5 percent. More people are using discount brokers, some of whom will list your property for free (or nearly for free) in the local multiple listing service and will rebate up to 75 percent of the commission received to the buyer (although the seller will still pay 2 to 3 percent). Clearly, the commission structure is changing, and from what I hear, Realtors aren't all that happy about it. (If they were making scads of money, you wouldn't be hearing that.) One issue is that the cost of doing business as an agent has increased, as has competition. Today, NAR has more than 1.2 million members, and there are an estimated 2 million agents nationwide (many who don't belong to NAR). When I first started writing about real estate in 1988 (and I'm dating myself here a bit), NAR had maybe 600,000 members. While more properties are being sold, we aren't quite at twice the number of homes sold 20 years ago, so more agents are chasing the business. They pay a lot more for advertising, for the now ubiquitous virtual tours, videos, marketing materials, and for Internet and web-related costs. Right now, we're in a tough buyer's market. I think listing agents and brokers are earning their commissions because it's taking a long time to sell property. That means holding more open houses, spending more time showing the property, advertising more and expanding the marketing options for the property. Being an agent is a business, like any other, and if you're good at it you'll make a good living. But the average Realtor earns less than \$50,000 per year - hardly a fortune. Are some agents making more money? Yes. But others are earning a lot less.

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