New York

Know Before You Co-Buy

Five rules to keep in mind before you go Dutch on a brownstone.

By S.Jhoanna Robledo Published Jul 17, 2014

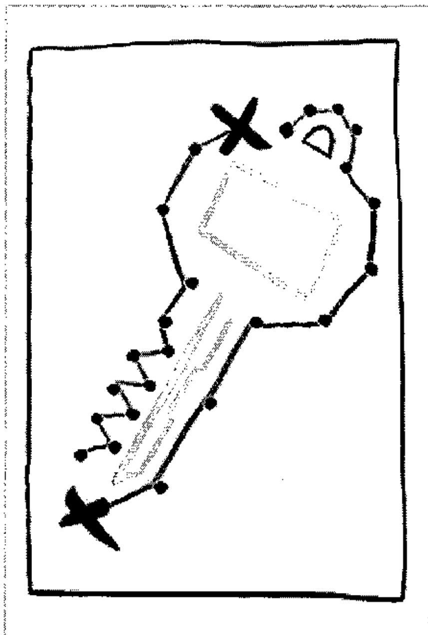

Illustration by Joel Holland

1. Everyone must be up front about their finances.
Make sure you're ready to "get in bed" with your co-buyers financially, says mortgage broker Eric Appelbaum. "Each person is jointly and severally liable for the entire mortgage," meaning each of you is responsible for the full amount should anything go wrong. Remember that you'll be evaluated as a group, which means all your assets and debts will be tabulated to create a picture of how creditworthy you are. Banks will approve you based on your group's weakest link. That said, you don't need to see one another's paperwork; you each can submit directly to the lender.

2. If possible, split the final cost down the middle.
Say one couple's apartment has three closets, and the other has two—don't split hairs when figuring out the final ownership percentage. "I don't think you can nickel-and-dime," appraiser Jonathan Miller says. "As close to a 50-50 split is better in the long run. You don't want to build resentment." If the differences are a little more marked (maybe one couple's ceilings are significantly taller), "try compensating with operational costs, like heating, cooling, taxes," he says. Of course, if it's a really big difference—like an extra floor—you can account for that in the final split.

3. Hire separate lawyers.
It would be difficult for one lawyer to represent both sides of a deal without any conflicts of interest arising. And make sure there's a provision that calls for mandatory mediation and arbitration, so you have a plan should things go awry.

4. Put your promises in writing.
At the beginning of the process, "when everyone's happy," says lawyer Steven Wagner, "that's when to work everything out—the number of days a week one party's boyfriend can stay over; who gets the larger bedroom; even limiting drug use." Be very detailed to account for all possible scenarios, like how you'll pay for

common charges; what happens when the boiler breaks; or whether you'll alert one another when you're hosting a party.

5. Include an exit strategy.

It's important that a prenup-esque agreement—a "tenants in common" contract—be in place, outlining the rights and obligations of all parties, including who's responsible if someone were to lose a job and need to move out or sell his portion, says attorney Sandor Krauss. This is where you'd insert a right-of-first-refusal clause, meaning your co-purchaser has to offer you the chance to buy him out first before he sells to a stranger and spell out how to figure out what his share is worth. You can even hire an appraiser to arrive at the fair-market value.