

This Week in Real Estate: Share Equity Agreements

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As home prices continue to rise across the country, many homeowners are researching whether to obtain home equity loans to take advantage of the value appreciation and unlock some of the increased equity. I similarly did this research. While researching home equity loans, I came across a vehicle that investors have been using for quite some time but is now available in the residential home consumer market – share equity agreements.

Shared equity agreements, sometimes known as home equity investments, enable a home buyer or homeowner to share home equity in exchange for a one-time cash payment from an investor. Such agreements allow you to liquidate part of your home equity for cash or sometimes are used in the home purchasing process to help prospective homeowners with a down payment.

Investors give homeowners a lump sum in exchange for a share in the future value of their homes. When the homes are sold (or when the contract term ends), the investors receive their share from the sale. If the value of the house increases, so does the amount the investor receives. If the house drops in value, the investor also shares in the loss.

There are no interest rates or monthly payments to worry about. The homeowner doesn't pay off the investor with monthly payments or interest. Instead, at the end of the contract, the homeowner agrees to pay the investor's initial investment and a fixed percentage of the change in home value. In a few cases, the investor's share is based off the overall value of the property at sale. The end of the contract is set for a predetermined date (terms are typically 10 to 30 years) or when the home is sold. You can buy out the investment at any time.

Shared equity appreciation agreements give investors a low-risk way to invest in real estate that can also offer them tax benefits. There are a growing number of reputable firms offering these products to consumers. Generally, these firms are partnered with large institutional investors, such as pension funds, who are looking for investment exposure to real estate assets.

A shared appreciation mortgage gives an investment company or investor a stake in the home's future equity. However, the investor won't have anything to do with the day-to-day running of your home. They can't make decisions on how you decorate or what remodeling projects you take on. However, they will benefit if your home's value increases. You will also be responsible for any expenses, taxes, or insurance costs.

When your equity sharing agreement contract finishes, the homeowner repays the investing partner the amount they initially loaned to the homeowner, plus a percentage of the appreciation in the home's value. If the home decreases in value, the investor will receive less money.

A shared equity finance agreement isn't technically a mortgage. It may be easier to qualify for a shared equity agreement than a home loan product. Credit and income requirements are typically more lenient.

Next week, we will examine how the shared agreements actually work.