

Joint Venture Partners (Part One of Two)

APRIL 2007

The following is the first of a two-part article on using Joint Venture partners to attract the capital you need to accomplish your real estate goals.

Last month we talked about the new Genworth product for real estate investors which allowed you to insure a rental property for up to 90% financing. This meant you only had to put 10% down. But if you recall, we also cautioned readers about getting too excited about some of the new, exotic products in the marketplace for investors. Although it is always a good thing to have more options and more flexibility, it remains critical for the sophisticated investor to maintain perspective and balance their overall goals against any single purchase. As we move forward in today's marketplace, the two biggest issues that have always faced investors will become even bigger issues as the price of real estate continues to rise. Those two issues are your ability to qualify at a bank for the mortgage and your ability to continue to be able to come up with down payments. The challenge is; how do you solve one without creating a problem for the other?

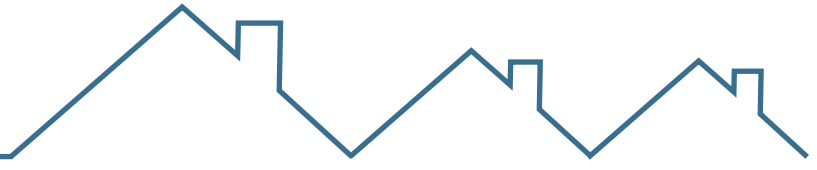
Here's a classic example of what I'm talking about. An investor is looking to buy multiple properties in order to accomplish their ultimate goal. However, their personal debt servicing limits are close to being maxed out at their bank, which means they are now reliant on surplus cash flow from their rental properties to qualify for future mortgages. As such, they will be looking to get as much cash flow as possible from their next few purchases. But the other realization they face is the fact that they will not have enough of their personal funds to come up with a 25% down payment on more than one property. Initially, the new 10% down option from Genworth looks like a way for them to spread their down payment money over a few properties and seems very appealing. But upon closer examination, they come to the realization that putting only 10% down will drive the property into a negative cash flow. Now they have a problem on the other side – qualifying for the mortgage. If the debt service ratios were tight to begin with, buying a property with negative cash flow won't help. Even if they did have a strong enough income to debt service one negative cash-flowing property, it is not likely they'd be able to do so on a regular basis. So what do they do?

In dealing with thousands of real estate investors over the years, I can unequivocally say this is the single biggest question I get. How can I make the limited amount of capital I have stretch over the maximum amount of properties so that I can accomplish my goals? The majority of investors automatically look to what I call 'band-aid solutions'. These are quick fix ways of putting less money down – generally offered up by someone specializing in 'creative solutions' – but not taking the big picture into consideration. First of all, we have to clarify that we are not talking about an investor who is only looking to buy one or two properties to augment their pension. If their financial goals can be accomplished with only a few purchases, then a few 'quick-fix' solutions may well be sufficient. However, if your real estate goals are more complex and require multiple purchases, then those same 'quick-fix' solutions may actually cause you more problems.

At the end of the day, whenever someone asks me how to put less money down, what they're really saying is that they don't have enough of their own funds to accomplish their real estate goals. My answer is always the same; instead of trying to figure out how to stretch one dollar into two, why not figure out how to find two dollars in the first place.

Now there may well be a variety of ways to create more cash to invest – from a buy, renovate & flip option, to winning the lottery – but the single most reliable and beneficial way that I've discovered to find more money for your down payment needs is to learn how to attract joint-venture partners.

Now I know what you're saying; "I'm really not comfortable with the whole idea of trying to ask other people to invest their money with me. Is there any other way to do this?" The answer is yes, there are ways to raise funds other than joint venture capital, but in almost every case I've analyzed, those options are either time or market dependent. But if you want to keep buying real estate today and you don't want to be reliant on either timing or the market to change, then my suggestion is that you shake off your hang-ups around joint ventures and start getting educated on how to do it.



Throughout the process of financing multiple purchases utilizing joint venture partners, I have studied what makes some people successful whereas others have a constant struggle with it. And what I have concluded is that successfully putting together a joint venture purchase has less to do with logic and more to do with emotion. At the end of the day, approaching someone and asking them to joint venture with you in an investment is right up there with a fear of public speaking – it's definitely not something that comes naturally to everyone. But even if the thought of public speaking causes you to feel queasy and break out in a cold sweat, could you learn to get over it if I told you that public speaking was the key to your family's financial future?

Once you realize that finding joint venture capital literally opens up the vault to an unlimited source of down payment money, thus allowing you to avoid the 'quick-fix' products and produce better cash-flow, the next step is to become a student of how to attract joint venture partners. This process is simply a matter of understanding your fears and analyzing why some people let those fears stand in their way while others seem to face the fear and do it anyway. And you might be surprised to find out that the secret to finding the joint venture capital you need has more to do with what you become over the next few months, than what you buy.

Next month we'll take this a bit further and I'll show you what you can do over the next 18 months to position yourself to attract all the joint venture capital you'll need to accomplish your real estate goals.

Until then, Happy Investing

Peter Kinch