

Joint Venture Partners (Part 2)

MAY 2007

This is the second of a two-part series on Joint Venture Partners. Last month we talked about the importance of being able to find joint venture capital and how it could well be the missing link for many investors. Many investors have goals and aspirations that far exceed their current bank accounts. This is not unusual nor should it be an impediment to moving forward. The lack of capital for down payments is probably the number one obstacle that prevents most investors from accomplishing their dreams. Overcoming that obstacle should be their number one focus. But surprisingly, many investors do not have a game plan – instead, as we indicated in last month's column, they look for band-aid solutions – trying to turn one dollar into two, instead of simply finding two dollars in the first place.

So why is it that some people have no problem finding joint venture partners while others would rather have a root canal than approach someone to go partners with them on a real estate purchase? For me, the answer is simple; those who are able to go out and attract the resources they need have developed three character traits that are essential to the process. I call them 'CCI' – Confidence, Credibility and Integrity.

In my opinion, these character traits far outweigh the benefits of technical skill or logic. Think of it this way – when you are considering entering into a joint venture partnership, you are asking that individual to trust you implicitly with their money to invest on their behalf. All you have to do to appreciate the task at hand is to reverse the roles. Ask yourself the following question; if you were to take the hard-earned equity that is sitting in your house today and someone else were to approach you and suggest that you hand it over to them to invest into a real estate investment with the promise of a good return which would be split 50/50 – you provide the down payment and they provide the expertise and do all the work. How would you feel? A little apprehensive? A little suspicious? I would think so – and if not, you should be.

So here's the next question; What would you need to see in that individual in order for you to feel confident in giving them your hard-earned money? What would that person need to show you in order to gain your trust? I suggest you take a moment right now, put down this article and go grab a pen and paper – now on that piece of paper make a 'list' of those items. Write down everything that came to mind that you would want to see in the person who is asking you for your money. What kind of track record? What kind of character traits etc...

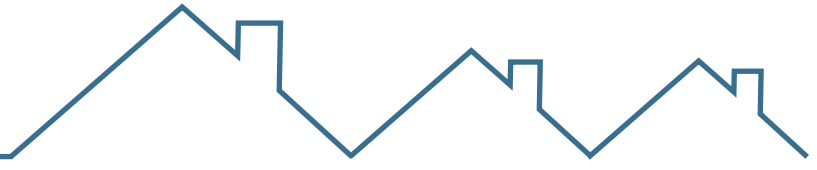
Now here's the tough part – everything that you wrote on your 'list' about what you want to see in someone else is exactly what you have to develop in yourself. And my guess is that, in addition to all of the logical numbers that make the investment such a 'no brainer', your list probably included items such as; character, integrity, a track record, evidence of previous success, a good working knowledge of the area you're investing, a good team of professionals providing support etc...

My recommendation for anyone just starting out as a real estate investor today is to take whatever money you have, that you're willing to invest and spend it in such a way that you develop your 'list'. Since you know before you even start that once your money runs out, you're quite likely going to need to develop the skills necessary to attract joint venture capital, don't wait until then to start working on your list. Start preparing for it today.

So how would you do this? Simple; when considering your purchase options, change your perspective. Instead of asking yourself how much you are making, ask yourself what you are becoming with each purchase. Remember, once your money is spent, you will become reliant on being able to raise funds from joint venture partners and your ability to accomplish this will depend on how well you have been at developing your 'list'.

Let me give you an example of what I'm talking about. Let's imagine the tale of two investors:

1. Investor # 1 has \$150,000 to invest but never thinks beyond the next deal.
2. Investor # 2 has the same \$150,000 to invest but has created a 5 Yr. Plan and is thinking of how to accomplish the end result while making the next purchase.



1. Our first investor takes the \$150,000 and, knowing it could represent a 25% down payment, simply buys a property for \$600,000. The property is poorly researched and has poor cash flow. The investor did not take a lot of time to increase their education level but is excited nonetheless by the upside potential the realtor suggested the property may have. The investor now realizes they have no more of their own money and try to seek out joint ventures for their next purchase. But with little experience and only one property to show for their efforts, they run into difficulty convincing anyone in their sphere of influence to lend them money.

2. Investor #2 on the other hand, took a look at their 5 yr plan and realized that once their \$150,000 was spent, they would be reliant on their ability to attract JV\$ in order to continue the pursuit of their goal. Upon analyzing their need to develop Confidence, Credibility and Integrity over the next 18 months, they changed their approach.

Instead of simply buying one property, they knew they would only gain confidence through the action of doing. So they split the \$150,000 up and were able to buy three properties with \$50,000 down and now had three \$150,000 properties instead of one \$600,000 property. In doing so, they focused on becoming experts in a particular area of real estate and through the process of buying three properties instead of only one; they significantly increased their experience, knowledge and Confidence.

They also focused on learning the fundamentals and had good cash-flow in the properties. This proved to be very effective when they sat down with their joint venture partners 18 months later. As a result of having become students of the process, they were able to impress potential joint venture partners by what they had become, not by what they had bought. The experience of buying multiple properties had given them confidence; the ability to show potential JV partners their portfolio of three properties gave them credibility and the fact that they spent their own money to go through their learning curve gave them integrity. And armed with those three Character traits, they were poised to eliminate the #1 obstacle that hinders most investors.

I hope and trust you too, can develop the ability to make your own list. What do you need to develop in yourself in order for you to attract the joint venture capital you need to accomplish your goals?

Happy Investing,

Peter Kinch