Creating Real Estate Joint Ventures

13 Things to Know Before your Next Deal

How to build successful Real Estate Joint Venture deals and fix issues simply, quickly, and effectively the first time!

Putting together solid, profitable deals is both an art and a science. So, in no particular order (because they're all important), let's get right to their toughest questions and give you our best answers!

Topics

CHAPTER ONE

How can I evaluate a Real Estate or JV Partner?

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When you're on the search for someone to partner with on your real estate investments, you want to think like the investors on the TV show "Dragon's Den."

So a thorough analysis of the skills, knowledge, and expertise you bring to the table is your starting point. Then, create a complementary list of the skills and expertise you need to round out the picture for your JV team. Remember, you're not looking for someone who's simply a mirror image of yourself, you want someone who adds to your strengths and "fills the holes" in the list of qualities they bring to the table.

On paper, we think of four general categories you want to fill out for your JV team:

- Access to money and financing
- Access to distribution channels
- Access to specific knowledge, skills, and expertise
- Access, experience, and exposure within a specific market

Between your JV partner(s) and yourself, you should be able to account for all of those areas of specialization clearly. And while there may be overlapping skill-sets and expertise levels, it's best to clearly identify and assign ultimate responsibility for each area to a single person on your team to avoid confusion and to help systematize your results.

But just like an investment property's spec sheet doesn't give you the whole story, your "on-paper shopping list" for JV partners isn't all you're looking for, either. Because the best partnerships in real estate and business also thrive on the fit and resourcefulness of the team as a whole.

A key question to ask

One method we've learned to rely on for evaluating a JV relationship is to ask the potential business partner what they consider to be a big problem - and then listen for two different components when they answer.

We've found that their response to that question gives you so much insight into their context in the area of expertise you're going into, whether it's real estate or general business. Here's an example of how that can play out.

When we started investing in real estate, a big part of my deal-making efforts was filling properties with tenants for our properties and other investors. Sometimes it would take 6-8 weeks to fill a vacant property, and sometimes we'd do a single showing and have more solid, vetted tenants than I had rooms to fill.

Over time, the process of advertising and filling vacancies has become a simple thing for us to do. And we've learned what to expect for tenant flow, open-house advertising responses, and property showings. But when we started working with one of our early JV partners, we went through our normal process of advertising and showing a property one weekend and ended up with no good prospective tenants that day.

No problem, we thought. We'll just advertise and set up another open house for mid-week and show the house again. But our JV partner was going crazy, calling us up day after day, worried that the house was still vacant. He thought this was a big problem when we didn't give it a second thought, even to the point that we hadn't considered keeping him up-to-date every day on our progress. We figured that when the place filled, we'd tell him and then move on to the next steps.

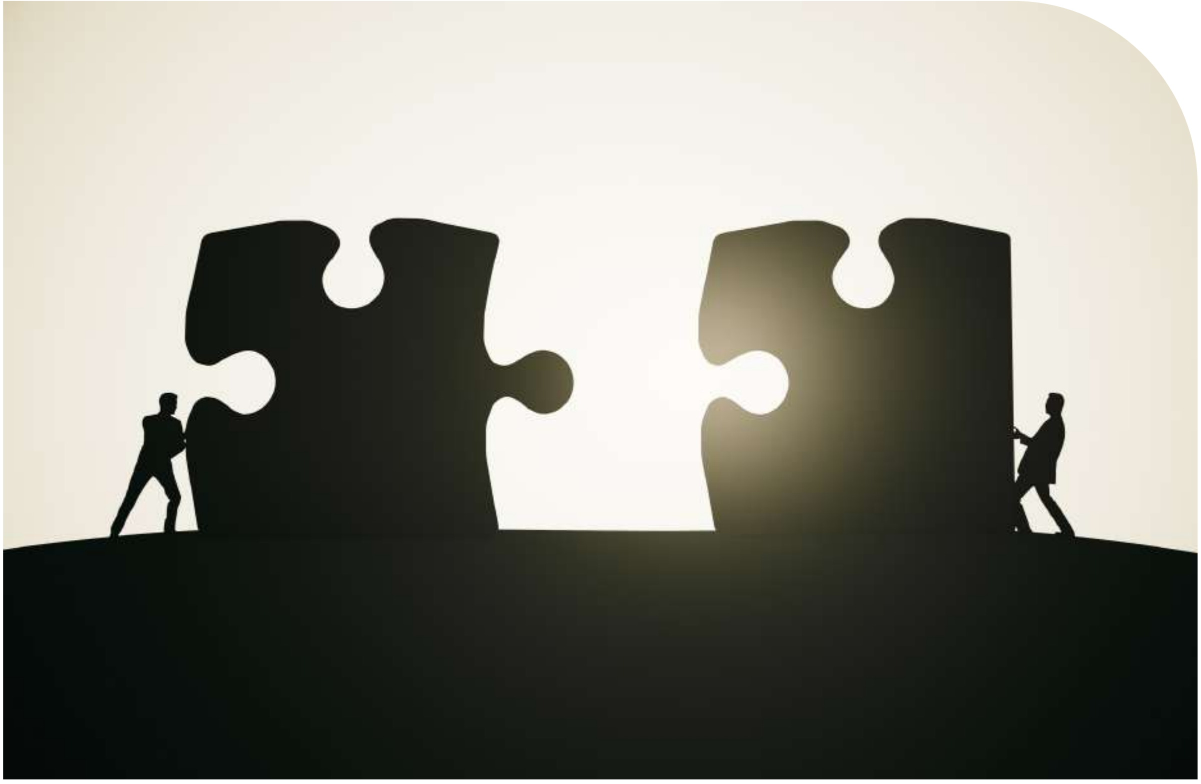
By the way, we've created a simple-to-use web app to help you analyze and assess potential Joint Venture partners. You can use it to guide you in choosing partners who complement the values you're bringing to a potential real estate joint venture, and the tool helps you decide if the deal is a good fit for both of your real estate investing goals and temperaments.

Click here for instant access to our Joint Venture Assessment tool

But it was important to him to hear all of the details daily because the process was unfamiliar to him at the time.

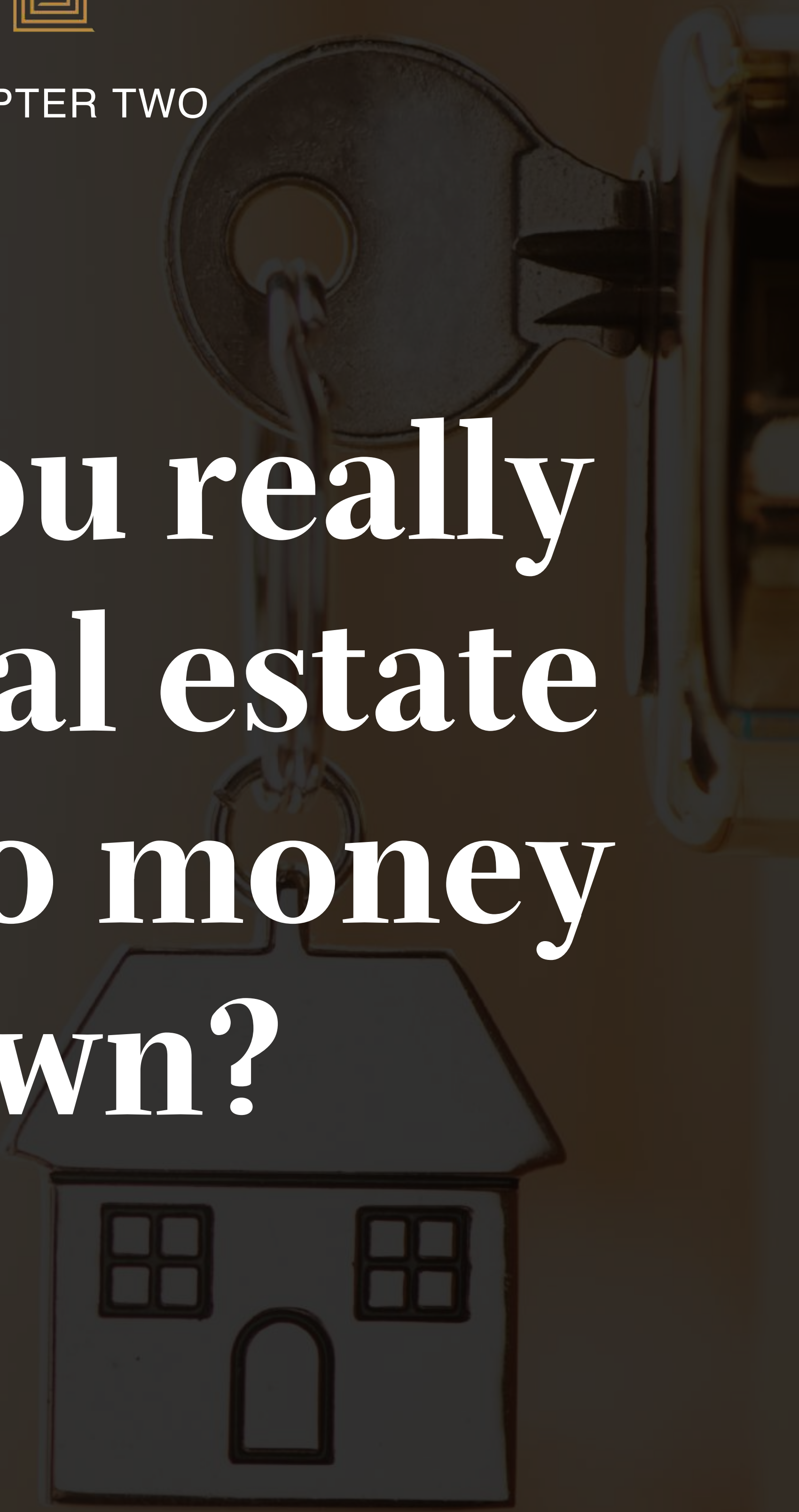
Eventually, we learned to let each other be the experts at what we each did best and recognize each others' expertise as well. And eventually, our new JV partner realized that a vacancy is a tiny problem in the world of real estate!

Another insight you'll gain when you ask the question "What do you consider a big problem?" is a glimpse at your potential JV partner's thought process in solving it. You'll get to see how resourceful they are. Because when you're choosing a partner, whether in real estate or business, you want someone who can handle all sorts of problems without breaking a sweat, and you want someone resourceful.



CHAPTER TWO

Can you really buy real estate with no money down?



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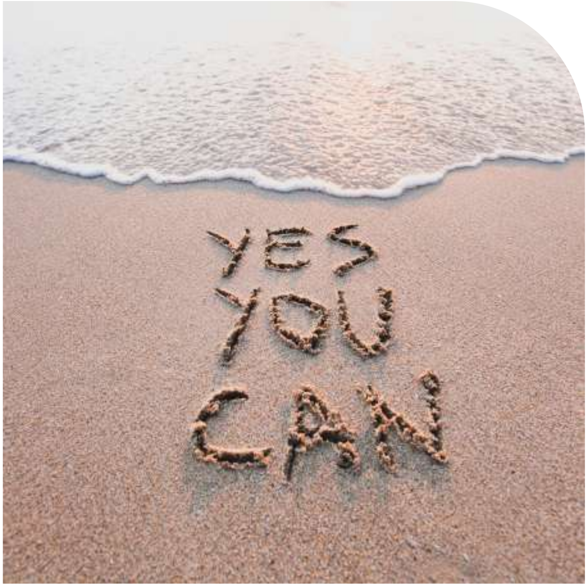

The short answer is yes, you certainly can. Technically, we've done it, our clients have done it, and you can do it too. And once you realize how much money is out there looking for a place to invest, you'll see that you need to put other people's money to work for you when you don't have the money yourself.

But we think the more important question is to ask "What methods work best in TODAY's markets?"... and follow that up with "When can you use those methods to greatest effect?"

You see, real estate joint venture deals are no different than buying your own home in at least one respect; even if you're using somebody else's money to kickstart your investments, you should never buy deals you wouldn't look at if you had a bunch of money yourself. Focus on the deal's details; that's what matters most to everyone involved, especially your investment partners.

And match your deal-making strategy to market and economic cycles and the seller's (and buyer's) individual circumstances.
In other words, every deal is different. So treat them that way, and pay attention!

A lot of the initial appeal of your deal's structure (and the property you're investing in) is the potential for cash flow and value enhancement. On paper, that's probably most of what you'll be able to demonstrate in your joint-venture proposal. Along with that, the intangible value and benefits of a solid deal may seem to have little to do with its profitability.

But don't make the mistake of going solely by the numbers.

Here are 3 things to ask before going into any deal:

1. When you visit the property you're considering as an investment, pay attention when you go into a room, and notice how the property feels to you. This is subjective, but ask yourself this question (since that's precisely the question your potential tenants will be asking before they'll consider paying you rent).

2. Go over the numbers relentlessly, both for upfront cash flow and potential equity over time. This is an objective question to ask yourself do the numbers add up and make sense? By the way, we've created an Excel tool that helps us analyze the numbers in minutes, finding value in minutes that most investors miss even after looking over the numbers for hours.

You can get our Investment Property Analyzer Tool by clicking here.

3. While you are analyzing the numbers, be sure to look at worst-case scenarios along with your most hopeful projections. For example, look at the worst year ever and figure out. Will your investment property still break even if another 2008 happens?

Once you're comfortable that the deal's foundations are solid, it's time to find real money to fund it. And while "no money down real estate" has been a popular selling feature with dozens of real estate courses and programs for more than 25 years now, some of the strategies you may have heard of are dated. And some of them are nearly impossible to put together today, for reasons we'll discuss in a moment.

For example, one of the classic strategies around 'no-money-down real estate' goes like this:

Ask the property seller to hold back a mortgage, often referred to as a VTB or Vendor-Take-Back mortgage. Their involvement could be as much as 100% of the property's value, or it could be just a 20% property value.

Of course, if the vendor agrees to hold 100% of the property back, they're essentially the mortgage holder. So effectively, when you buy the property in that situation, you're doing the deal with no money down.

In a similar scenario, if the vendor holds back 20% of the property, and then you qualify for the remaining 80% at the bank, you pay the vendor their 80% property value from the bank mortgage that you got, and the vendor holds back their 20% mortgage as well. Again, you've essentially done a no-money-down deal.

Now while that's possible to do, it's not very common these days. Think about the reasons why.

This strategy doesn't make sense for the current economic cycle. It worked like gangbusters in the late 1970s and early 1980s when interest rates were in the teens, and real estate wasn't exchanging hands as quickly as today. When people are having a hard time selling the property because of the interest rates, you might be able to approach somebody and say, "Hey, will you hold back part of the mortgage in exchange for me buying the property?" And you can do a no-money-down deal.

But when the property owner wants to sell the property and get out from under it, the VTB strategy is a tough sell.

Another no money down deal strategy that is taught a lot tells you to lease a property from an existing landlord and get them to include the right to sub-lease it. So, for example, if you lease it for $1200 a month, and you have the right to sub-lease, you can turn around and advertise the property, renting it out to somebody else for $1500 per month.

You'd keep the difference of $300 in cash flow when you can do that without actually buying the property. So again, you've put no money down, and you've created $300 in cash flow.

The trouble is that this is hard to do systematically, especially in the high-demand conditions of today's market. After all, people are currently renting out properties pretty easily in southern Ontario, where we've done most of our joint venture deals!

So what works for 'no money down real estate' today?

That's why the no-money-down strategy that we have seen work for real estate investors in today's market is to use private money. That's the essence of a Joint Venture deal.

In a typical scenario that we've done ourselves -- and coached our clients through dozens of times, too -- you find an income property that you want to buy, and then go to different people you know, friends, family, and other people in your network. In that situation, you can even get 100% of the property's value in a private-money loan, essentially buying a property with no money down from your own pocket.

In another prevalent scenario, everything is the same as the strategy above, except the JV partner brings 20% of the property's value in cash and qualifies for traditional financing for the remaining 80% with a local bank or lender. Still no money out of our pocket ;-)

We've even set up property deals where the investors are borrowing the value of the property and including extra dollars to renovate and improve the property to add value. After all, if you can pay private lenders 6-8% interest and still make the property deal work, where else will people get that type of return these days? There's interest to do deals like this if you can put them together. Again, you have to match the strategy to the economic cycle.

CHAPTER THREE

What is the difference between a real estate Agent, a Realtor and a Broker?

What is the difference between a real estate Agent, a Realtor and a Broker?

When buying a home as an investment property, especially before the process has begun and you're looking for a real estate agent, you'll come across the terms agent, realtor, and a broker. So what's the difference, and how are you supposed to know which one to choose?

A real estate agent is anyone who is licensed to accommodate the sale or purchase of the real estate, land or property, to any individual or business.

To earn a real estate agent license, an individual must undergo several courses and training about real estate transactions and the law surrounding them and then pass an industry-accredited final exam. The requirements and coursework vary from province to province and state to state, but it typically consists of 40-90 hours of study time.

Plus, in both Canada and the US, real estate agents must be at least 18 years of age and undergo a period of supervised practical training before they can be registered as real estate professionals.

Once the individual has completed the training and passed the exam, they cannot operate independently, even though they now have their real estate license. They must work for a real estate broker.

A Realtor is a real estate agent who has undergone extensive training beyond the minimum amount required, is a member of the National Association of Realtors (NAR) in the US or the Canadian Real Estate Association (CREA) in Canada, and subscribes to the Realtor Code of Ethics.

The ethics training undergone by potential Realtors must be completed within one year of the agent becoming a member of the NAR/CREA, and they must also update their training and examinations once every two years. While all Realtors are real estate agents, not all real estate agents are Realtors, and only those can use the registered Realtor trademark on their promotional materials.

Finally, a real estate broker is an individual who has completed even more extensive training beyond the real estate agent level and is also educated and licensed to run their own brokerage. Once their training has been completed successfully, the broker can work independently and hire real estate agents to work for them.

CHAPTER FOUR

Can I buy a property without a real estate agent?

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Many people toy with the idea, at least at first, about buying an investment property without a real estate agent. After all, they reason, how hard could it be to find a suitable home for sale and make an offer without dealing with a middle-man?

In truth, with the amount of online databases and properties being advertised just about everywhere, that initial step is not that difficult. And, because the seller won’t have to pay a commission fee to an agent, they might even be more flexible with you on the price.

However, purchasing real estate without the help of an agent can not only be very daunting, it's also quite intricate and complicated. It can end up being a disastrous and needlessly expensive situation. Here's why.

One of the first things you'll face when you decide to buy an investment property without your own real estate agent is the seller potentially asking if you're interested in dual representation.

In this scenario, the seller's real estate agent will complete all of the paperwork and handle the transaction for both the buyer and the seller. While this can seem like a tempting option, since you'd seem to have an agent working for you without the need to find one yourself, it can actually be dangerously expensive. After all, because the agent technically represented the seller first, they will always have the seller's best interests at heart. In other words, it would be impossible for them to remain impartial and 'negotiate against themselves' to close a deal in your favour.

Another thing to be wary of if you opt to buy a home without using a real estate agent is that the house may have a shady history, one that you'd likely be unaware of on your own. Real estate agents have more access to information about the homes they represent (such as if it was ever used as a meth lab or suffered insect infestations or flood damage that's been poorly repaired). In fact, they are required by law to disclose that information to buyers.

But if you don't work with an agent when buying the home, you may never have the chance to hear about all of the details, and you could commit to a large-scale purchase that could have serious implications in the future.

Information regarding the property's history isn't the only thing you might miss out on when you choose to buy a home without an agent. Real estate agents can tell you about schools in the area, amenities, and which neighborhoods are pricier or more tenant-friendly than others. Without this information, you could not only pay more in the long run, but you could also end up with added difficulties finding tenants for your new investment home.

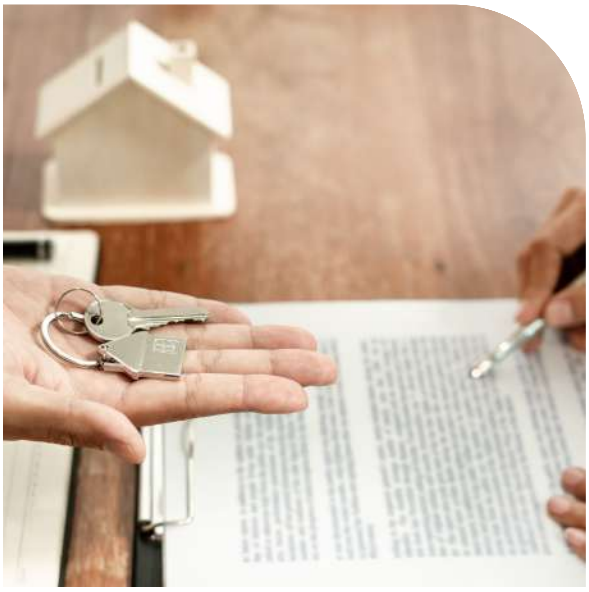
In addition, there are many benefits to letting a Realtor help you during the home-buying process. The first and possibly most significant advantage is that Realtors specializing in Investment Properties will bring much more education and experience about buying properties that are attractive to potential tenants and can present more cash-flow-positive opportunities for the investor. They have seen a lot of different investment and tenancy situations, know what to look for and which questions to ask you to create an investment scenario that suits your goals.

Real estate agents can also be significant buffers between you and the investment homes that aren't worth your time. They may have a history with sellers, knowing if they're willing to negotiate and by how much, and they can also keep those sellers away that are trying to entice you into buying their home when it's not really something suitable for your needs. Because most people will be dealing with your agent rather than you during the transaction, all you'll have to worry about is finding a property that you're comfortable with that's a good fit for your financial and investment goals.

Even if your nose is constantly in the real estate section of the local paper, and you keep yourself up to date on current market trends, a real estate agent is going to know more about current market conditions. They'll be able to forecast the local real estate market's future trends and give you information about which properties will be best for you given those conditions.

A real estate agent can also help you hire the different professionals you'll need to work with during the property-buying and tenancy-preparation processes. This includes inspectors, appraisers, home contractors, home designers, and other professionals.

And especially important with property investors, you'll want the right kinds of legal, property-management, and tenancy advisers on your side on an ongoing basis. A knowledgeable investment real-estate agent can guide your access to the best people in the business, not only saving you the time it would take to research those professionals on your own, but also helping ensure that your property plans and arrangements are both profitable and legally sound.



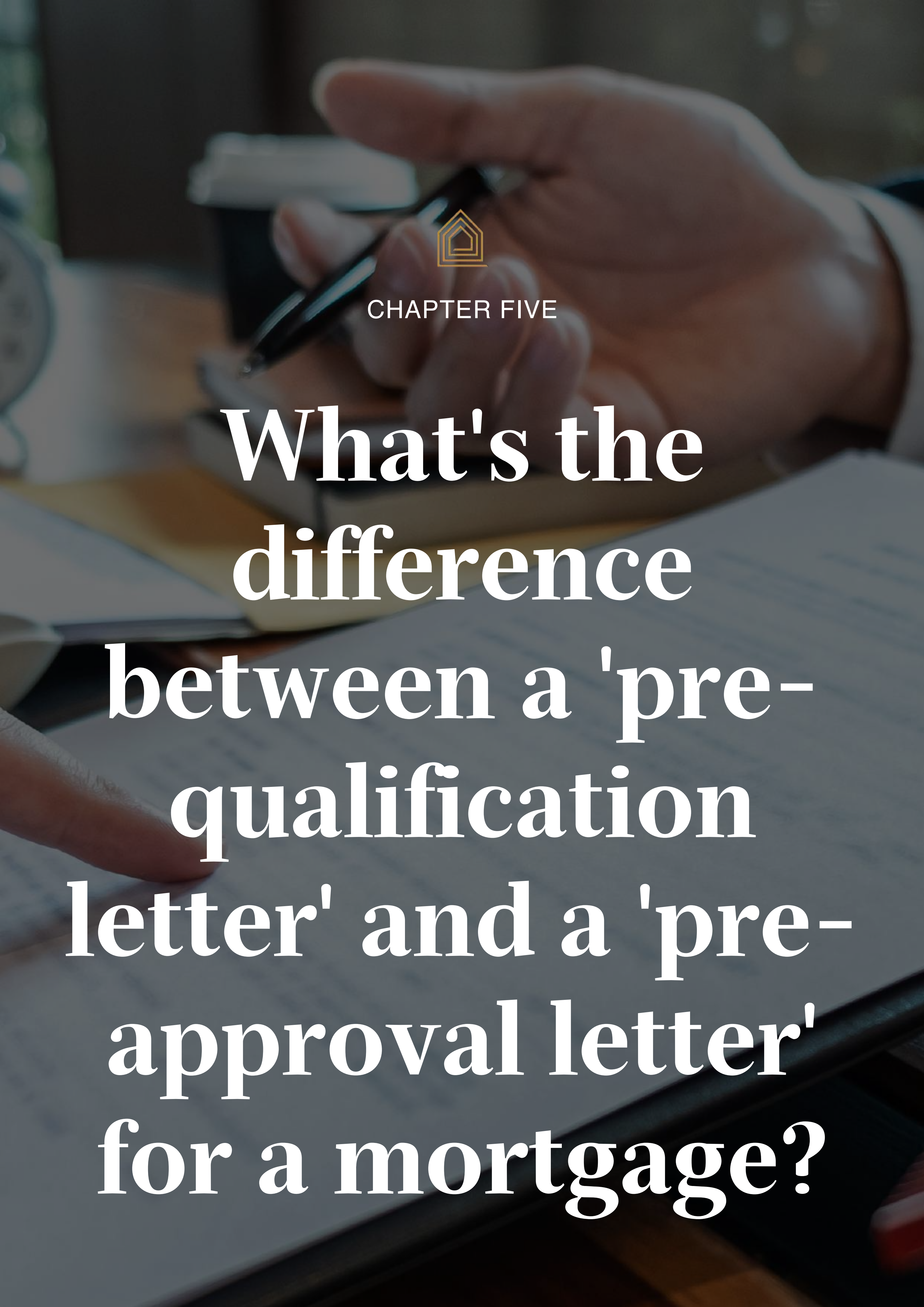
Even with the most current information about the housing market, and the ability to find different properties that are suitable to you, you'll have no one better fighting for you during negotiations than a real estate agent. Agents know how to argue and negotiate for their clients to get them the best possible price and conditions without giving away confidential financial or personal information.

And the last but indeed not the least important benefit you'll get by using a real estate agent is sage help and advice even after closing. Closing can be a significant time, getting the keys to your new property, and officially taking ownership. It can be easy to overlook things like transfer taxes, doc stamps, and property tax assessments. Once the deal has been done and these issues crop up, your real estate agent will be there to help you sort it all out.

Do your research, then research some more

When you're investigating property for a potential investment purchase, there's no point sending someone else out for you, then asking what they think of it. You have to see it for yourself. Because when you look at the property and the community around it through the eyes of potential tenants, you might end up saying, "I love this street!"

For example, one of our investment properties is on a wide, one-way street that's so much quieter than other properties only a block away. I wouldn't have realized how attractive it is to live in the area if I hadn't gone there myself. And that insight makes it much easier to position the property when it comes time to keep it filled with tenants who are happy to live there, too.



CHAPTER FIVE

What's the difference between a 'pre-qualification letter' and a 'pre-approval letter' for a mortgage?

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After speaking to a lender about financing their mortgage, buyers are likely to get one of two letters: a pre-qualification or a pre-approval. Both may get them excited, but what do those letters really mean?

A pre-qualification letter is simply a letter from your bank, lender, or mortgage broker stating how much of a mortgage you can afford. It's important to understand that this letter simply says how much home you can afford and does not consider other costs of property ownership such as property taxes, insurance, utilities, home maintenance, and management.

It's also essential for property investors to understand that while there may be a certain amount indicated on a pre-qualification letter, It doesn't absolutely mean that the buyer will be approved for this amount when it's time to apply for a mortgage.

A pre-approval letter, on the other hand, is very different. With these letters, a bank or lender has committed to lending you a certain amount, and you can confidently start looking at homes under that price, as you know that financing has been virtually secured.

Pre-approvals typically generate the most excitement from property investors; they're a guarantee that you're going to get financing and that you can purchase a property you're interested in. For this reason, pre-approvals also get sellers excited because to them, it means that the buyer isn't going to have financing issues that hold up the closing of the sale.

So, should you speak to a bank before or after you've found a property you like?

Investors often think that they should look at properties first to know how much to ask the bank for, but this is a mistake. You could end up falling in love with properties you can't afford or discovering financing problems you don't know about until it's too late to save the deal you wanted. Instead, before even starting to look at investment properties, speak to your bank or your lender about your joint venture team's financial partner(s) eligibility. They will talk to you about your current financial situation, your debts, and assets and tell you what you can afford to spend on a property.

If you're a first-time buyer, it's essential that you speak to a bank first. Many federal, provincial, and local programs are available to help first-time buyers, some of which may also apply to property investors, and you should know about them before you start looking. First-time buyers often aren't familiar with the different costs of buying a home, including escrow, pre-paid items, liens, and down payments, to name just a few. Speaking to a bank can help investors know exactly what they're committing to before looking at homes.

How do I find a lender?

Finding a lender for your mortgage is very easy. Finding the right mortgage lender for you, however, requires time and research on your part. If you don't already have an idea of the bank or lender you want to use, you can start by checking out banks, savings and loan companies, credit unions, government lenders, or private mortgage companies. Start by making a list of the different lenders you're most interested in, and then contact them individually to find out more about their background, history, and suitability to your real estate joint venture proposal. If you're already working with a real estate agent, you can also ask them to recommend a particularly good mortgage company or lender in the area.

Each of the lenders is likely to offer different interest rates and terms for your mortgage, so make sure you bring a pen and paper to write down the numbers, amounts, and other important information when speaking to them. Also, be sure to talk with several different lenders before making a decision; after all, you're potentially entering into a contract with that company that you'll be committed to for the next 15 to 30 years.

For most lenders, the entire loan approval process will take 3 to 6 weeks from beginning to end. For many investors, this means they can apply and be approved for the loan before they've even started closing the deal on their next property.

CHAPTER SIX

How Does an Investor-Focused Mortgage Broker Help Grow Your Real Estate Business?

You may be asking yourself:

Why use a mortgage broker for Investment Property?
Isn't it just as good to go into a branch of your local bank and talk to their mortgage person? Or, how about just researching your options over the web with an online mortgage provider?

Banks or rate sites aren't great options alone

A 2019 Bank of Canada paper analyzed people's interest costs over the lifetime of their mortgages. They found that shopping around, sophistication and negotiation skills were vital in getting the best deal on your mortgage. They also explicitly stated that "borrowers that use mortgage brokers pay lower rates."
How much would a 1% lower interest rate save you?

(With the lower rate, you would create $100 in extra monthly CashFlow. Cha-ching!)

An Investor-Focused Mortgage Broker's real job is to educate you on how to Maximize your financing capabilities and acquire the most rental properties. That is the difference-maker.

A mortgage broker looks at your entire situation, educates you on your best options, and helps you find the product that will best suit your needs at a very competitive rate. Unlike banks or online lenders, they help you figure out mortgage solutions and a mortgage plan specific to YOU. Your unique financial situation and financial goals set the guidelines for the work you do together. Remember: The goal is to get multiple properties, not just 1.

A good mortgage broker may review the offerings from roughly 30-50 lenders, including banks, trust companies, and credit unions, to find out which are the top matches for your needs. They want you to be comfortable and confident in your decisions, and they want to arm you with the right tools to make informed choices.

Worried that using a mortgage broker will cost you?

Mortgage brokers are paid by the lender almost all of the time. If we work through your application and find that the only way to get you the money you need is through the **services of a private lender or** alternative lender.

we will discuss that scenario upfront. If a fee will be payable, you are ALWAYS informed of that ahead of time and have the choice not to proceed. At no time are my clients ever surprised by a mortgage broker fee.

Have you ever wondered where to find people & partners with lots of money who are eager to partner with you? Check out this video for more details.

Click: Where are the People & Partners?

CHAPTER SEVEN

Who is responsible for the down payment, and how much will it be?

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Quite simply, in a real estate joint venture, the down payment comes from the joint venture partner with access to cash. That may be the basis of their total contribution to the deal, or it may be just one of several value categories they contribute. This responsibility should be clearly defined in your joint venture agreement for clarity between the joint venture partners and the lender's financial assessments.

Of course, the amount you'll have to pay before you even take possession of the property will vary, depending on the cost of the investment, as well as the type of mortgage you choose to get. However, there are three different costs you'll need to pay once the deal is signed and the property is officially yours. These are the purchase deposit or earnest money deposit, the down payment, and the closing costs.

A purchase deposit is a money you give to your real estate agent when you first put an offer in on the house. The agent places this money into a Trust Account or escrow account until the offer is accepted, at which time your deposit will be put towards your down payment or closing costs. If your offer isn't accepted, the money will be returned to you in full. The actual amount of purchase deposit varies from property to property and is typically 2 – 10% of the sale price, with 5% being most common. Remember, everything is negotiable in the offer.

The down payment on your home is typically a large amount of money that you'll have to pay upfront for your mortgage. This down payment gives you equity in the home (the portion of the home that is actually paid for) and gives the lender some protection in case you default on your mortgage payments. The larger your down payment is, the lower your mortgage payments will be, so it's an important factor in contributing to the cash flow of your investment property right from the start.

Different lenders will have varied requirements for their down payments, but typically it's suggested to acquire 5 to 25 percent of the property's price. Certain loans, such as those provided by the FHA in the US, can have very low down payment requirements, allowing buyers to take advantage of down payments lower than four percent.

Closing costs must be paid when the deal is signed and officially done. These payments cover the different costs charged by the lender and expenses incurred for processing the loan. While these costs may not sound all that significant, they can average about 2 to 4 percent of the price of the property.

When you first apply for your mortgage, your lender will be able to give you an estimate of what your closing costs will be, helping you to figure those dollar values into your purchase and cash-flow calculations.

How much of a down payment do I need?

There is no fixed dollar amount set for the amount of down payment you will need; instead, the down payment is a percentage of the total cost of the investment property. The size of the down payment you'll need will depend not only on the price of the house but also on your financial and credit history, which will be assessed by lenders when you apply for a mortgage.

First-time buyers can apply for Federal Housing Administration (FHA) loans in the US, which require that you make a down payment as low as 3.5 percent of the home's total value. Similar programs in Canada, including insured mortgages from CMHC (Canada Mortgage & Housing Corporation), allow buyers to purchase their first home with only 5% down. However, if you can't make a 20 percent down payment, you should seriously reconsider whether or not you should buy a home as an investment. Not only will anything less than 20 percent trigger compulsory mortgage insurance and make your mortgage payments even larger, but making a smaller down payment is also a good indication that you can't afford to purchase a home right now.
Or it's an indication that a JV partner with access to cash and financing may be the key to acquiring your next investment property.

CHAPTER EIGHT

What are some typical real estate joint venture formats, structures and responsibilities?

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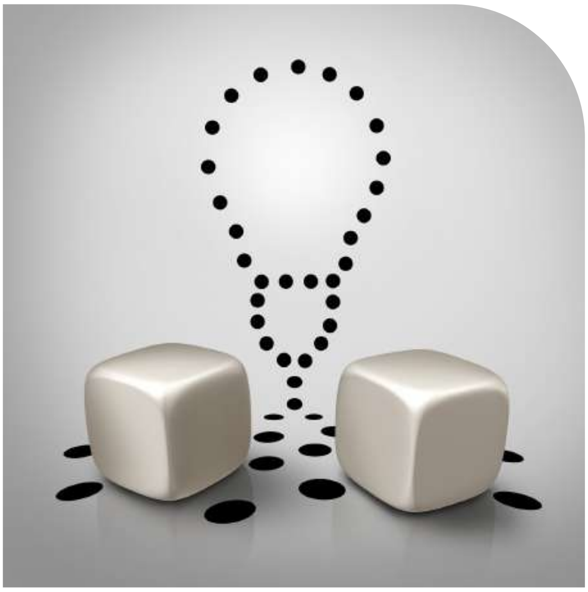


The structure of a real estate joint venture deal can depend on why you want to do joint ventures in the first place. For example, when I began expanding my real estate portfolio beyond 2 or 3 properties, I eventually tapped out of financing when I became self-employed. While I brought plenty of skills and experience to the table, I didn't qualify for a lot of the funding that I wanted. That's what pushed me to parlay my expertise to get joint venture partners.

It was just survival. I wanted to keep investing; I believed in it, I was cash-flowing; in fact, my cash flow kept me alive. Even to this day, the majority of my good income comes from my real estate investments, like my rental properties, re-finances, cash flow, property sales, and investing in real estate.

So while I'm doing these deals where I'm finding tenants, finding deals, and then packaging them and selling them, it didn't take long for me to learn that owning half of a house is better than owning none of it.

I think my first JV was with my parents. It was too good of a deal to let it get away. And my dad co-signed with me; keep in mind, these are my parents, who always said debt is terrible. But when they joint ventured with me, it was interesting because I told them, "Look, guys, I know what I'm doing. This is the deal; this is how much money can be made. I'm putting in all the money; I just can't qualify for the mortgage because I'm self-employed right now. Can you guys qualify, and we'll split it?"

Fortunately, they said yes, and they took a chance. It paid off well for all of us, both in ongoing cash flow and in a lump-sum equity payout, when we sold the property a few years later.

So real estate joint ventures can be structured in several different ways, with as many variations as there are people out there to partner with. But typically, a joint venture partner will have the capacity in at least one of four categories to bring to the deal:

- Liquid cash assets (for the down payment, up-front property repairs, and renovations)
- Credit-worthiness (for mortgage qualifications, and also possibly to finance short-term renovations and repairs)
- Access to expertise (property management, marketing, investors, deal flows, and private money lenders)
- Hands-on skills and facilitation (property management, marketing, property and cash-flow assessment, negotiation, day-to-day availability to tenants and contractors, etc.)

I think of these categories as the four walls of a JV deal, starting at approximately 25% value for each 'wall' of the deal's total value. Of course, those percentages can vary according to each partner's contributions, commitments, and individual agreements in the joint venture. And as you can see, at least two of those categories don't involve bringing money into the deal.

That's how you can still create lucrative real-estate joint venture deals with no money down, even if your credit rating isn't exactly stellar. As long as your financial partner in the JV deal brings cash assets and/or creditworthiness to the deal, it can still fly. And depending on whether you're using bank financing or private money to support your JV, the deal's viability and profitability can improve even further.

By the way, we've even created a simple-to-use web app to help you analyze and assess potential Joint Venture partners. You can use it to guide you in choosing partners who complement the values you're bringing to a potential real estate joint venture, and the tool helps you decide if the deal is a good fit for both of your real estate investing goals and temperaments.

Click: JV Partner Assessment Tool Download Page

The most common structure we use for single-family or small multi-family investment properties is simply a 50/50 arrangement,
where the JV Partner brings:

- Liquid cash assets or line of credits (for down payment, up-front property repairs, and renovations)
- Credit-worthiness (for mortgage qualifications, and also possibly to finance short-term renovations and repairs)

The Real Estate Experts bring:

- Access to expertise (property management, marketing, investors, deal flows, and private money lenders)
- Access & Analysis of Profitable real estate deals
- Hands-on skills and facilitation (property management, marketing, property and cash-flow assessment, negotiation, day-to-day availability to tenants and contractors, etc.
- In the end – we split the profits 50/50
- Again, there are unlimited structures and splits you can create here; the above is the easiest and simplest way to get started.

In the end – we split the profits 50/50

Again, there are unlimited structures and splits you can create here, and the above is the easiest and simplest way to get started.

Check out this YouTube video where I explain different JV structures and why it's crucial to understand the "4 Pillars of Joint Venture Structures & Agreements."

Click: 4 Pillars of Joint Venture Structures & Agreements Master Class

CHAPTER NINE

Can I buy an investment property if I have bad credit?

Can I buy an investment property if I have bad credit?

Buying investment properties when you have a less-than-perfect credit history is possible, but it's going to be a lot harder to get a loan than for someone with outstanding credit. You might be required to supply a larger down payment upfront, and you could even be required to pay for mortgage insurance, provided by companies who specialize in this type of coverage to protect the lender in case the buyer is unable to make payments on their mortgage.

While this insurance is in place to give consumers the opportunity to purchase a property when they'd otherwise be unable to do so, keep in mind that it can typically add hundreds of dollars to your mortgage payment every month.

Another factor that will greatly affect the amount of the monthly mortgage payment is the amount of interest you'll need to pay, which is directly influenced by the level of financial risk associated with the borrower's situation.

When a buyer has bad credit, the lender assumes a much greater amount of that risk, so they will charge a higher interest rate to compensate.

For this reason, it's extremely important that before buying an investment property, you try to get your Credit Score (from Equifax in Canada) or a FICO score (a mathematical formula that translates the data in your credit report into a three-digit number that lenders use to make credit decisions) as high as possible and try to repair any past credit problems.

And that's why, when you select a JV partner who can bring their high credit rating into the mix, you can still move forward with your investments. Your JV partner can act as the lead for the financial assessments and transactions of your investment property deal, even if your own creditworthiness doesn't qualify for the level of financing the deal may require.

CHAPTER TEN

What are the main advantages of creating a corporation for a real estate joint venture deal?

What are the main advantages of creating a corporation for a real estate joint venture deal?

Here's a good question that often comes up in conversations about investing in real estate.

Should you create a corporation for your real estate investing activities?

There's no single blanket answer to this question since it depends a lot on your particular circumstances. And we're not lawyers (we don't even play one on TV), so you definitely want to speak with a legal pro before making your decision. But we can tell you about the two primary reasons why we've decided to create our own real-estate investing corporation since it can make good financial sense to do so in Canada.

The first reason for creating a corporation is actually a liability. Because depending on the type of property, you're dealing with, such as a big property with many people living in it, there could be a lot of liability on your shoulders if something disastrous were to happen at the property. And when you have other personal assets that you want to protect, placing your investment properties within a corporation can limit the exposure of those other assets to the potential liabilities of properties that you own.

There are some exceptions and restrictions to that, depending on whether things like gross negligence and other legal exposures can be proven, but for the most part, a corporate structure can add safety to your real estate investments. So that's number one.

The second reason, and the one we hear about most often, is taxes. And while there certainly is a financial benefit available, it's not necessarily for everyone because it's going to cost money to set up corporations, and maintain these corporations, and run your real estate investments as a business. The choice depends largely on the amount of income flowing from your investments, so it may not make sense for some people to set up corporations for tax reasons.

However, if you have enough income going through the corporations to justify the expenses, you can drop your tax rate quite a bit, sometimes by 1020-2530%. So, for example, if you're generating $100,000 of income, you're able to turn over a larger percentage of that income on a faster basis, allowing it to grow faster within the corporation.

When you're able to save 1020 or 2530% off your tax rate, that's an extra $1020K-$2530K you can use to invest in further properties or assets. So that can be an obvious benefit if you can put the right structure in place. Again, it's very important for you to sit down with a certified professional lawyer or accountant, one who understands real estate investing specifically, to figure out when your investment income reaches the point where it's the right decision for you.

CHAPTER ELEVEN

How can I evaluate an investment property? (or a JV deal?)

How can I evaluate an investment property? (or a JV deal?)

By now, you probably already know that when purchasing an investment property, you need to take into consideration not just the sale price but also things like property tax, mortgage insurance, and closing fees -- and most importantly, cash flow. However, there are other costs of owning a home that is just as relevant and that you also need to know about.

You'll have to pay for the water, gas, electricity, and other utilities in your property, so you need to know how much these are to understand how much it will cost you every month to have tenants living in the property. In addition to that, you'll also have to accept the fact that there will be repairs and maintenance that needs to be done on a constant basis; no home is ever perfect forever. Also, remember that if the home is in an area that is prone to natural disasters such as earthquakes, tornadoes or floods, you'll likely have to pay for costly hazard insurance as well.

People say all the time, “Well, I'm paying $1,000 for rent when my mortgage payment would only be $700,” and think that owning a home is automatically cheaper just by those numbers. Truthfully, however, there are so many other costs associated with homeownership that is simply comparing these two payments isn't enough to determine whether or not renting or homeownership is cheaper.

How much house can I afford?

Before you start looking at investment properties, you need to know how much you can afford. Typically, speaking to a lender or bank will tell you this information, but if you want to get an idea of how much you can afford before you talk with a lender, you can do it on your own. Outline all of your income, expenses, assets, savings, and debts. Doing so will help you get a realistic picture of what you can afford and what you cannot.

You also have to remember that the total you end up with is not the total amount you can spend on a property; you're going to need money for other living expenses as well. The general rule of thumb that's used by mortgage brokers and lenders is that your maximum mortgage payment should not be more than 28 percent of your gross income. Your debt load, including the new mortgage payment you will have, should not be greater than 30 percent of your gross income. These are the ratios that are typically used by lenders when determining if they are going to agree to the loan.

An easy way to figure out if the property you're considering holds enough cash-flow potential to make it a worthwhile investment is to access the simple-to-use Excel-based application we've created. It helps you to analyze and assess potential Investment Properties for value, affordability, and cash-flow potential. Plus, you can use it to guide you in finding extra value in properties that other investors haven't discovered yet (which is exactly why we designed it in the first place!). And you can also use this simple and powerful tool to showcase property financials to your joint venture partners and access the cash you need for your next investment property.

Click here for instant access to our Investment Property Analyzer Tool

One of the best ways to find out how much home you can afford is to find a mortgage calculator online from a local lender. Simply search through any search engine, and you'll be provided with a list of calculators that will take some basic information from you and determine how much of a home you can actually afford.

From there, you can use those numbers as the basis for your JV partner search if the property you want to acquire is beyond your current budget or financial qualifications. You don't need to "chase your budget" when choosing an investment property, but you do need to know what that budget is as a starting point.

What are the average utility bills for the property you're considering?

In most cases, the utilities in the property are going to be one of the biggest expenses you face after your tenants move in. Because of this, it's very important to know how much each utility costs per month, what the agreement is with the utility suppliers, what documentation you need to have, and if there are predetermined dates when the payments are made.

To find out the utility costs of any home, it's best to speak to the seller directly about it. They can not only provide you with an average monthly amount, but they can also tell you whether they kept the property warm, if they continuously ran dishwashers or laundry machines that would use up more water and energy, or if they had any appliances in the home that used a lot of energy. All of these things will help you compare their utility bills with yours, as you may find ways to simply use less energy and resources, which can ultimately make a difference in the monthly bills.

What are comparable properties worth?

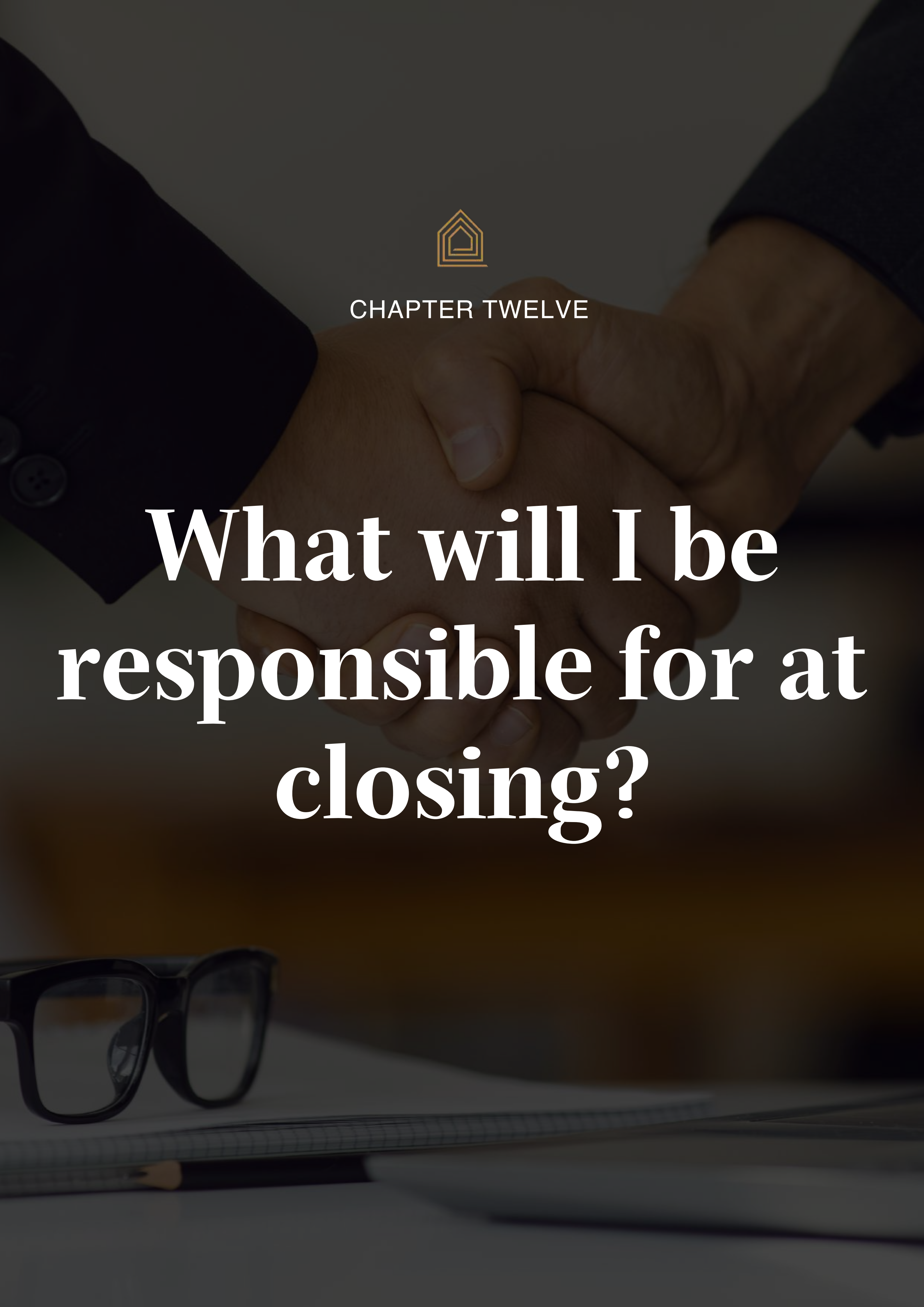
A real estate agent can tell you what the asking price is on an offer, and they can provide guidance as to whether or not a seller will even consider your proposal if your first suggested offer is too low. But ethically, real estate agents cannot tell buyers an exact dollar amount to offer on the property. Buyers get access to the listing that includes the price and determine on their own whether they should offer the full asking price or whether they should go a bit above or below it. Often the choice seems very simple. If the buyers are in love with the property and are happy paying the asking price, they will. If the buyers could see themselves as the new owners but think the seller might have overestimated the value, they can offer a little less.

But sometimes, the answer is not that simple.

For example, what if you do love the property and would be happy to pay the full asking price if there wasn't all that work needed in the basement or on the roof? While you might want to offer a bit lower than asking, it's a challenge to know how low to go. Because the agent can't tell you directly how much to offer, you'll need to know some other questions to ask to get your answer.

The best question you can ask is for prices of "comps," comparable homes that are in the same neighborhood and are similar in size, structure, and condition. If those "comp" properties have already sold, you can find out what they sold for and even get price ranges of multiple homes in the area.

Another great question to ask to get an idea of the home's worth is to find out how long the property has been on the market. If it's been listed for several weeks and hasn't seen a lot of offers, it could be because the property is overpriced, which will give you an indication that offering less than the asking price would be acceptable.



CHAPTER TWELVE

What will I be responsible for at closing?

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Every homebuyer and investor that purchases a property has the right and the opportunity to take a final walk-through of the home. Often the sale isn't ready to close until weeks, sometimes even months, after you've initially walked through the property during the showing. A lot can happen during that time, and you want to make sure there's no major damage that wasn't present the last time you were there. Ensure that all of the appliances and other items that were included in the contract are, in fact, still there and that the property is in the same condition it was when you agreed to buy it.

Although taking that final walk-through is not required of you, it's essentially as important as a pre-purchase inspection, where you're looking throughout the property and making sure you're happy with it. During the walk-through, make sure you check that the furnace is working, that the roof is in good shape if possible, that there's hot water, and that all the toilets are flushing properly.

What can I expect to happen at closing?

Closing is something you'll hear a lot about during the property-buying and mortgage process, and many buyers, especially first-time buyers, don't really know what's going to happen or what they can expect. Where does this "closing" even happen?

Closing is simply when the deal is finalized, and you take ownership of the property. Typically, keys will be exchanged, closing costs will be cleared up, and any remaining items will also be taken care of and signed off.

During the property loan process, your lender should have provided you with a good faith estimate of how much you'll have to pay at closing; they're required by law to supply this estimate. They'll also tell you about any and all documentation that you'll need to bring to closing with you. If you don't receive this information from your lender, be sure to ask for it well in advance of the closing date.

The 'closing' meeting will take place in an office with you, your broker, the seller's broker, the seller, your lawyer, and possibly a closing agent present. The closing agent lawyers will have a lot of papers for both you and the seller to sign, and while they might give a brief explanation of what each draft contains, Take the time to read through each of them to verify that the conditions you'll be agreeing to are correctly represented.

Finally, once the paperwork has been signed and all closing costs are paid, you will be given the keys to your new investment property!
What are my responsibilities at closing a JV deal?

CHAPTER THIRTEEN

Should I get a home inspection done before closing on an investment property?

Should I get a home inspection done before closing on an investment property?

In hot markets, where there are lots of properties available, and most of them already demand properties that exceed supply, having multiple offer scenarios are commons; this means that multiple buyers are submitting an offer at the same time. The Seller is in a position of leverage here because they have multiple prospective buyers at once.

Sometimes agents advise their clients to submit a "clean offer", or one that doesn't include a home inspection clause... especially on a property that they've really fallen in love with. The thinking behind that advice is that you'd make the offer much more attractive to the Seller, so it should be much more likely to be accepted. However, it is always, always a huge mistake to buy a property without a home inspection. If you do, that property you loved so much could end up being a nightmare.

The trouble is, if you purchase a home without a home inspection, it's easy to overlook major problems with the home that are hidden from casual view. There could be problems with the foundation that you didn't even know to look for, problems with the electrical or plumbing systems that you can't see, or other major issues that are tough to detect but expensive to repair.

In short, if the property is purchased and you find out about the problems after the fact, it will be too late. The responsibility for making the repairs or updates, as well as all costs associated with it, will be yours.

In a more balanced marketplace, a home inspection clause in the offer documents is extremely common and expected by most parties in a deal. For any kind of investment property you're purchasing for yourself or in a Joint Venture, the property inspection is a top priority. Remember, one of the best ways to make money in real estate is to avoid losing it in the first place. An inspection will reveal any deficiencies present, so there are no surprising and costly repairs afterward. Surprises and Investing do not mix well.

Deficiencies don't always have to be deal killers, and if the deficiency list adds up to $5000 in repair costs, a good agent will bring that to the Seller's attention and attempt to reduce the price in order to cover the costs.

This is common practice for investors and a superb method for finding good value in 'brusied properties.'

In the special case of a 'forced sale,' repairs or significant work might not necessarily hold up the sale of the property but do, in fact, hold up your tenants' move-in dates if you're buying a property in foreclosure. Because of this, if you're interested in foreclosed properties, especially those that are in quite a state of distress, understand that you might not be able to move tenants into your new home right away, and you will need to have alternate accommodations and cash-flow financing available while repairs are being completed.

What's the age of certain items and fixtures in the home?

It's important to know the age of certain items and fixtures on the property, especially those that are both essential and costly to fix. A home inspector will be able to tell you how old the roof is by looking at it and determining if areas are sagging or if shingles are starting to come off. However, for other items that the home inspector can't be able to tell you the ages of, you'll be entirely within your rights to ask either your Realtor or the seller.

You'll definitely want to know the ages of the furnace, water heater, and air conditioning. If the seller doesn't know the ages, or if you can't speak directly to the seller, your real estate agent can discover where to find the serial numbers on the appliances and fixtures, which will help you determine their age from the manufacturer's data. You can then determine (or ask the home inspector) how much longer they should last and estimate when or if they'll need any repairs any time soon.

Can you provide paperwork including warranties, for mechanical systems, appliances, and other large items?

Again, if an appliance breaks and is still under warranty, it will do you no good if you're already the new property owner and the seller has moved on. This one's simple: you must ask for any and all warranties for any and all mechanical systems, appliances, and other large items before closing the deal. After all, if you don't have this documentation and the appliance malfunctions or breaks down, you'll be the one paying for any and all repairs.

Click here to get instant access to our Investment Property Analyzer Tool

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