How to address common objections to your joint-venture real estate investment deal

Becoming a money magnet

Say you enter a meeting with a potential joint-venture partner, only to leave with the feeling that said partner is not too thrilled about the perceived risk. Or, perhaps, your current partner voices a concern that you really have no immediate answer for.

It happens to all of us – even the best "money magnets" get pushed away once in a while. This is most prevalent if the potential partner is about to enter into a venture real estate deal for the very first time. As the sophisticated investor on the team, it is your job to put your partners at ease – a duty that becomes even more effective when you are able to address potential issues well ahead of your partners bringing them up. Doing so will prove to your partners that they are in good hands.

Below is a list of the four most common objections real estate investors hear from potential joint-venture partners, including angles and wording you can take to shed a positive light on each issue:

1. People can lose money in real estate. The best way to protect yourself from a loss is to ensure you don't get caught speculating in a market. I always keep a watchful eye on the local market for the subtle signs of shifting cycles in order to remain pro-active (before others even see it happening). The trick is to buy positive cash-flow property in an economically sound region, which can provide a good return on investment. And, if the market does not perform as well as anticipated, we are protected by our cash flow and mortgage pay down.

In reality, people lose money by investing poorly and non-strategically in all types of investments. Our goal in this partnership is to mitigate the risks by remaining pro-active in managing the "business" we have formed and by maximizing the return on the investment.

2. What if a tenant trashes the property? The best way to ensure this does not happen is to properly screen and select the tenant from the start. I use a five-step check system to screen tenants that includes job verification, previous two landlord checks, professional credit and background check. Five people have to approve the tenant before they move into our asset.

The second way I protect our investment is through a special insurance policy that covers us for tenant vandalism. Though I haven't had to use it in all my years of investing thanks to the thorough tenant-screening process mentioned above, it sure is nice to have as a back up.

3. What happens if you die? This is just one of the reasons to ensure you have a well-written, professional, legal joint-venture agreement that clearly protects you and your estate. You will continue to own your 50 per cent of the deal and my executor or heir will take care of my 50 per cent. There are options we can put into place that make it even better for you, such as:

a) buy insurance on each other (paid for by the property cash flow) that covers the underlying mortgage and potential taxes so it keeps the property clean for the surviving parties;

b) put a clause in that instructs the executor to get an appraisal and offers to sell you the 50 per cent automatically; or

c) put in a clause that kicks in upon either of our deaths that forces the property to be sold and the monies distributed.

4. What if I need to sell and get my money out quickly? This red flag should alert you to ask your potential partner, "Do you see something in your life right now that may force this situation? Is there something I need to know about now?" Remember, this is a five-year agreement going in.

With real estate, selling at the wrong time of the cycle can cost money; even if you need to get out, that is a process that takes time. Three options we might consider are:

a) finding a different partner to buy your share;

b) listing the property and hoping for a fast sale; or

c) sitting down together to walk through the reason you need your capital back and brainstorming a solution that might save you from dumping a good property. Together, as partners, we would determine the best course of action.

It is important to remind your partners that this is a true partnership where both parties are responsible for the outcome of the investment. In addition, within partnerships, there will be changing priorities that will have to be negotiated.

Be a professional

Let's be realistic – you are raising capital from your circle of friends and contacts. They have worked hard for their money and, if they haven't asked you at least some probing questions, I would ask if they really understand what they are getting into.

Being armed with the right answers to the tough questions is just another way of showing your expertise and commitment to success.

If they are not asking questions, it may be a bad sign – a signal that they may not understand but are for some reason or another afraid to ask.

Your job as the real estate expert in the relationship is to provide them with answers and ensure they understand the deal properly.

Be a professional investor rather than always trying to push and sell … you will do so much better over the long haul.◆

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