



Taking the **risk** out of joint **ventures**

Joint ventures can be a good way to fast-track your portfolio, but they can also be risky. So how can you mitigate the risks of dealing with joint venture partners? Helen Collier-Kogtevs, director of Real Wealth Australia, explains

When it comes to joint venture partnerships in property transactions, many investors tend to shy away – mainly because they’ve heard too many horror stories about such partnerships ending with families and friendships breaking up and people losing their money, their homes and even their businesses. There are also those who don’t understand how, when and where to use joint ventures, and therefore don’t explore them further.

Successful joint venture partnerships are a common occurrence in today’s market. They’re successful when the partners have done their homework on each other, and have agreements in place that spell out the conditions of the arrangement, including the roles and responsibilities of each partner.

The most common reason why joint ventures fail is because there was no written agreement between the parties.

Why a joint venture?

The answer is simple: if you want to buy into a good deal, and you don’t have the capacity in one way or another to complete it, then finding a joint venture partner can provide the missing link to enable you to close the deal.

It will mean that you’ll have to share the proceeds of that deal, but our philosophy is that we’d rather have 50% of something than 100% of nothing. In short, joint ventures can accelerate the potential to grow your property portfolio faster.

Joint venture partnerships have been fantastic for us. They’ve allowed us to accelerate the growth of our property portfolio when we had little or no more equity to use as deposits to buy property.

The biggest issue that we had in growing our portfolio was equity. Having started with only \$12,500 in our back pocket seven years ago, we needed to buy high capital growth properties so that we could revalue them six to 12 months later, draw out the equity and use it as a deposit for our next purchases.

The problem we had, however, was that we kept running out of equity, even though we had fantastic borrowing capacity.

There’s nothing worse than having the desire to purchase more properties without the means to do it. For us, property is a long-term strategy and I understood that we needed to wait patiently for capital growth to happen before we could buy the next property, but I felt I was being held back by our lack of equity.

Our first joint venture had its beginnings when we travelled to Perth a few years ago to visit friends for a birthday party.

We arrived early in the day, so our host took us on a tour around Perth. The incredible redevelopment that was taking place in East Perth really pricked our investment antennas up. We could see the potential in the area – it was minutes from the CBD, next to the Swan River, across the river

from the Burswood Casino and golf course, and close to infrastructure and great restaurants. Our investment appetite was whetted by a couple of display units that were for sale in an apartment block.

Without really intending to buy the property – but always on the lookout for a good deal – we started negotiating on one of the units to see how good a deal we could get. After a bit of to-ing and fro-ing, our offer was accepted. This left us in a conundrum of what to do next.

On our return to Melbourne, we were chatting with friends about how we had negotiated a fabulous discount on a unit overlooking the Swan River, but didn’t have the funds for the deposit.

To cut a long story short, they had cash in the bank and wanted to borrow but couldn’t. We had borrowing capacity but no equity. So we decided to buy the property as a joint venture deal. We had a joint venture agreement drawn up by a solicitor – and the rest, as they say, is history.

Types of joint ventures

When it comes to property, the two most common types of joint venture partnerships involve:

- equity partners – those who put up the cash, and
- finance partners – those who take out the loan from the bank

We had the borrowing capacity but not the equity, and our friends had the equity but not the borrowing capacity.



other's, so that each party brings something to the table to make the deal work.

For instance, in our case, the partnership wouldn't have worked if our friends were in the same position as us, and had borrowing power but no equity.

There are many people who own their own home, and therefore have lots of equity, but are semi-retired or work part-time

and don't have the ability to borrow money. This situation provides the perfect opportunity for them to form a joint venture with someone who has a solid working history, earns a good wage and has the capacity to borrow.

Choosing the right partner

It's important that, when choosing a joint venture partner, you make sure they have similar goals, desires and intentions as you.

This is one of the key elements to a successful joint venture, as having a similar mindset and understanding about investing can help make the partnership run a lot smoother.

If there are differences, you could run the risk of your partner regretting the transaction down the track, which may impact on your friendship. The purpose of a partnership is to jointly grow wealth in harmony, not to be burdened by one partner's negative view on life.

The fine print

To avoid making costly mistakes and to take the risk out of your partnership, you'll need to have a written and signed legal joint venture agreement among all parties. Entering into a joint venture without a written agreement is likely to end in disaster.

Joint venture agreements should only be prepared in 'plain English' by solicitors who are practised in producing such agreements. The

Together we had the makings of a perfect joint venture partnership.

We structured the partnership so that our friends provided the deposit amount plus the 'on' costs such as stamp duty, solicitor's fees and conveyancing costs, and we took the loan out from the bank.

When it comes to deciding who puts what into a joint venture partnership, it's really up to you as to how you want to structure it. It helps if each partner's needs complement the

agreement governs the operation of the joint venture and should, among other things, include:

1 A clear picture of what you want out of the partnership, and what you're prepared to contribute. By this, I mean that all parties must be crystal clear as to why they're purchasing the property and what they intend to do with it.

For example, I know of people who entered into a joint venture partnership to purchase a property without a clear written agreement of what they wanted to do with the property. Some time later, one of the parties decided that they wanted to develop/renovate the property, while the other party didn't – a disaster waiting to happen.

2 A description of what the purpose of the investment is. Is it to buy and hold? Is it to renovate or develop? Will you keep it for many years to come or do you want to sell it after a short period of time? Being clear with your intentions and outcomes upfront will help with the process and will make implementing your exit strategy a lot smoother.

3 You also need a clear definition of each party's roles and responsibilities. If not done correctly, the partnership can get very messy. I don't know how many times I've heard of joint venture renovation partners whining about how their partner wasn't putting in what they believed was a fair effort. A clear and upfront definition of each party's roles and responsibilities would have avoided the issues.

4 A clear indication of timeframes for getting things done, including what happens in worst-case scenarios.

To take the risk out of your partnership, you'll need to have a signed legal joint venture agreement between all parties

5 A clear indication of what happens if you go over budget – where will the additional funds come from?

6 A management plan outlining who will manage the day-to-day running of the property and who will manage any issues should something go wrong.

7 A timeframe outlining if and when you're intending to sell the property. What would you do if, in a worst-case scenario, one party hits hard times (for example, loses a job or their relationship breaks up)?

All of these factors need to be considered before jumping into a joint venture agreement, so you need to have a 'plan B' should things start to go pear-shaped.

As a guide, when purchasing our Perth apartment in a joint venture with our friends, we all decided that we would keep the property for a minimum of five years.

Therefore, regardless of what happens in our lives, the property will sit there for at least that amount of time.

It was also agreed that we would manage the property exclusively, as our friends wanted to be a silent partner. We would collect the rent and used it to help pay the mortgage and body corporate fees and expenses, but would share the capital gain upon the on sale of the property equally.

Our worst-case scenario was that, if one party needed to sell, then the other party would have first right to buy the other party out. If we decided to mutually sell the property, then the profit would be shared equally after expenses and taxes.

8 You also need a process to cover one or all parties should someone change their minds. There is nothing wrong with changing your mind, so long as your agreement has a process that describes how you'll manage that change. This will alleviate headaches down the track.

9 A complaint resolution and other risks process. The success of your joint venture is dependent on the agreement between the parties.

The clearer it is and the more risks it covers, the smoother the process and the happier the transaction outcome will be.

Keep it in writing

The biggest risk I see in this scenario is when people don't have a written agreement between the parties. So many times I've heard of investors doing deals on a handshake! For me, handshake deals are high risk, as I can't remember what I ate for dinner three days ago, let alone what I said four years ago.

My experience is that human nature gets in the way of reality. We all interpret life through our own rose-coloured glasses, and I've certainly learnt the hard way when it comes to remembering what I said in the past and not documenting it clearly enough. My memory has shortchanged me before, so now I document everything.

Golden rule

If you're entering into a joint venture with someone, make sure you have a formal agreement written by a solicitor to protect all parties. It will make all the difference to the outcome of your joint venture.

But don't fear joint ventures. Maximise your skills by joining forces with someone who complements your abilities. As a result of our successful joint venture with friends on the Perth apartment, we did it again with them on a property in Sydney. Same intention, same philosophy, same agreement and same exit strategy.

When we do catch up with our friends from Perth, we laugh that our holiday over there to visit them was our most expensive!

The capital growth on the Perth apartment has been fantastic and the joint venture partnership has been bliss to deal with, hence, we don't regret for one minute getting into the deal ... in fact, we'll do it again. ■

Helen Collier-Kogtevs is director of Real Wealth Australia and the author of '47 Biggest Mistakes Made by Property Investors and How to Avoid Them'. For more information, see: www.realwealthaustralia.com.au



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