Joint Venture Explanation

Brief Explanation

The Joint Venture is by far the most powerful business concept ever conceived. The ability for two or more people to pool their resources together (money, time, skills, etc) to achieve a greater goal, has been the hallmark of the world's most successful companies and business ventures.

The joint venture's application to real estate is absolutely natural and has allowed hundreds of thousands (if not millions) of people to accelerate and multiply their results.

Two or more people with a common goal (typically financial) get together and offer each other their resources. One partner may offer their time and services, whereas the other may front the money for the transaction. Since the active partner (time and service) may not have the money, and the investing partner (the source of financing) may not have the time or expertise, both parties are required to successfully bring a transaction together.

An agreement between the two partners is formed. The nature of this agreement is truly mutually beneficial to both parties and huge rewards can be realized.

The Benefits

Investing Partners

- Higher ROI
- Increased Investment Possibilities
- Passive Income
- No Time Commitment
- Opportunity to Diversify Portfolio
- Increased Net Worth
- Minimized Risk Due to Investment Nature
- Proven Systems and Clear Cut Agreements
- Opens the Door to Otherwise Unavailable Investments

Active Partners

- No Money Required
- Infinitely Repeatable
- Increased Net Worth
- Minimized Risk Due to Investment Nature
- Unlimited Purchase Power
- Monthly Cash Flow
- Leverage Your Time
- Proven Systems and Clear Cut Agreements
- Opens the Door to Otherwise Unavailable Investments

This article has been written by Lindsey Smith of the Entyro Service Group in Calgary AB

How It Works

Once the partners agree to work together, it is time to figure out how the details of the arrangement will unfold. It is important to note that there are no concrete laws involved in determining how the terms of this agreement will look, however we recommend looking at past successful models for guidance. This is what will be discussed here.

A common joint venture agreement is between two parties. One person has some money to invest, however maybe not the time or desire to properly manage a real estate investment, and usually also lacks the specific skills necessary to acquire, maintain and properly assess such a venture. The second partner may not wish to front any money, however has the time, wherewithal and commitment to appropriately acquire, maintain and assess the value of a property.

In this arrangement, the investor typically fronts all the money and the active partner contributes all their time, effort and skills respectively. The investor will cut a cheque, and the active partner will find the property and take care of everything else. Since both parties are equally important, the ownership is divided up 50/50.

Each party will split the income from the property equally after the investor receives their initial investment back. This means that there will be a return of the investment and a return on the investment.

There are three ways you will make money. First, is through the equity that comes from the mortgage being paid down. This has nothing to do with the investor's down payment, but is the amount that is paid down after possession is taken. Second, is through the cashflow that occurs if the property is rented and the amount of rent collected each month exceeds the monthly expenses (typically paid out quarterly). Finally, the appreciation that is gained as the property increases in value.

A Quick Example:

A property is purchased for $250,000 and the investor fronts $65,000 for the down payment and initial costs. Rents are collected and there is $200.00 per month positive cashflow. Meanwhile the mortgage is paid down $4000 per year. After 3 years, the property is now valued at $330,000 dollars and you decide to sell. Here is the break down:

The investor would get back their $65,000 initial investment
Income from Cashflow: $7,200
Amount of Equity Paid Down: $12,000
Income from Appreciation: $80,000

Total Income: $92,200
50% share to each partner: $46,100
ROI for the investor: 24% annually or 71% overall

This article has been written by Lindsey Smith of the Entyro Service Group in Calgary AB