

12 Vital Issues To Discuss With Your Real Estate Investing Partners

What You Need to Know BEFORE Forming A Real Estate Partnership

1. **Consider starting a partnership as a "one-off" (i.e. one-time) deal rather than starting a business that will buy all its real estate together.**

Then assess how things are working, whether you want to continue, and how ownership should be allocated for future deals. Have these discussions up front and put your agreement in writing. People's lives change and they may be less generous or "forgetful" of what you agreed to if they are going through a hard patch in their personal lives.

2. **Signing on a loan IS a big deal especially for forced appreciation deals with little equity and no cash flow.**

Consider carefully what you sign for AND if you choose to you should be compensated for it. Also consider how much of the value you bring with your signature. When possible, look for non-recourse financing.

3. **Structure ownership percentages based on responsibilities and value at the start.**

If the roles and responsibilities of the partners change over the course of the deal, compensation can always be adjusted.

4. **Ask yourself, "Do we really have competency for this specific type of deal?"**

If not, do the experts we've hired have the competency and experience (and are we prepared to really use them)?

5. **Determine what type of deals you'd like to do and why you're looking for a partner.**

You may not know this from the start and it's good to learn from experience, but over time consider what really works best. For example, for me it's when I use my Unique Abilities to bring great value to the project, work with other competent partners with good character, then serve in a limited on-going fashion on a project I want to invest \$ in. The type of deals I look for are mostly cash-flowing with upside potential.

6. **You need a LEADER for the team, it's a critical role.**

Don't try to manage by committee unless you have a smooth running project and are OK with taking longer to make decisions. Leading a project can be a lot more work, especially if it's a forced appreciation deal or if you run into big problems or other partners back away.

7. Ensure upfront that partners will act as "owners."

You don't want "employees" who only wait to be told what to do. Let your fellow partners REALLY have areas of responsibility within the project in which they are accountable for creating results. If they project is to move forward, they must meet expectations and deliver results on time and under budget.

8. Discuss upfront how you'll handle partner buyouts.

Be prepared for partners to "change" for a variety of reasons but especially with life changes. Discuss how you'll handle this upfront. What happens if a partner needs to back out? In general they should receive less than those remaining. When something isn't working or a partner wants to exit the partnership, deal with it fairly and decisively; don't let it languish.

9. Discuss upfront how you'll address the situation if a particular partner can't make a needed "cash call."

If all partners are not able to participate in capital calls, you can raise funds within the team by issuing debt, or by diluting ownership interests.

The simpler method is to issue high-interest loans from the company to the partners who come up with cash. These partners' debts are paid before income distributions are made.

This may be easier than re-allocating ownership unless it's been worked out in advance how much equity the partner who doesn't contribute loses.

10. How can you ensure partners are competent and experienced in their areas of responsibility?

Ask for referrals, and then talk to the people who know your potential partner's work style the best. Ask yourself how the potential partner performs in other areas that you interact with him or her and whether they keep their word and demonstrate a strong character.

11. Discuss upfront how other partners may profit from services they provide that could be provided elsewhere.

For example, it might be less expensive for you to hire a secretary than to partner with someone who only serves an administrative role.

12. A person's real character is tested in tough times.

You will face challenges in your partnership and/or on your project at some time and you will hopefully choose to grow from it. *"If you falter in times of trouble, how small is your strength!"* Proverbs 24:10. When you face challenges take time to think about and write down answers to these questions which can turn the "challenge" into a positive.

- What can I learn from this?
- How can I benefit from this?