JV - What is a reasonable split between RE expert and investor?

by Thomas Beyer (from the REIN forum)

Is 50/50 the right split as many use? But is this the right split ? Why not 70/30 ? or 25/75? Why not charge a fee upfront when all the work is done, and a fee as you go along, or more than 50% over a certain price target or investor ROI ?

Some of my investors have made 200%, or 300%+ ROIs, so 50/50 in hindsight seems like expensive money, but then they referred others, so in hindsight that is the entry price to mutual success.

First deal is always hardest, 2nd a bit easier, 3rd deal a bit easier, 15th is easier…

Hence, usually you have to do your own deals, with your own money, to prove a point or an expertise area!

Hence: sell too early.. to show a track record in deal 1 .. do a 2nd or 3rd deal .. show it again .. then you have the right to ask for other's people's money ..

So give away a little too much in the first deal, take a little more in 2nd deal, a little more in 3rd deal .. Until the formula fits these criteria:

IT HAS TO BE WIN/WIN .. both for you and for the investor .. both you and the investor have to feel it is a fair deal and no one gets ripped ..

IT HAS TO BE REPEATABLE .. and as such, you have to make money too while you hold, work, get the mortgage, find the trades, upgrade .. and as such 50/50 works POORLY as you have usually almost no cash-flow while you hold and need add'l income to wait for the big equity pop at the end .. often years away .... why not charge a fee upfront (perhaps it is being credited against your future earning .. perhaps you call it a sales commission or an asset acquisition fee), a fee while you go along (perhaps charged against your future earning .. usually called an asset management fee) .. and then take 50 or 25 or 30% or 80% at the end .. depending on the outcome .. no one usually minds that you make lots of money .. as long as they make a decent ROI .. for the risk involved .

IT HAS TO REWARD THE RISK ADEQUATELY .. and as such some deals need to show a higher ROI than others .. building brand new homes in brand new markets with no expertise is high risk .. you have to offer high ROIs .. subdividing land and waiting for approvals is high risk .. condo conversions is high risk .. buying pre-sale condos is high risk (especially if you couldn't close them yourself and they wouldn't cash-flow if you had to buy them ..) .. buying lower priced townhouses or duplexes or apartment buildings for rent with rental and equity upside in growth markets is fairly low risk .. perhaps less equity upside .. but high leveraged and thus high cash-on-cash ROI .. but loss of capital potential is very low .. so you don't have to offer too high an ROI .. i.e. you can take 50% or more of the profits.

IT HAS TO BE SELLABLE i.e. you have to have a proposition (properly packaged with appropriate legal and marketing material and website and salesmanship and team members that execute with you or on your behalf) that works for the investor .. he wants a track record and assurance that he doesn't lose any money .. i..e they want a return OF their money .. and then a return ON their money .. so the track record, you the person, the risk, the likely or potential reward and the packaging have to be aligned for it to be sellable ..

Happy JVing ..

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