



## Joint Ventures

### What is a JV?

“A joint venture (often abbreviated JV) is an entity formed between two or more parties to undertake economic activity together.”

Two or more organizations team up to work together on a specific venture, pooling their resources, normally for a short term while remaining separate entities. For example, two companies may form a joint venture to undertake a major development project that neither can do on its own.

So when we talk about Joint Ventures in property development what we mean is organizing a partnership between two or more people (companies or trusts) where each person contributes to the completion of the deal. Examples of possible assets that people can contribute are; - Money (or equity e.g. the land etc.) - Experience (previous deals/developments) - Education (knowledge) - Skills (i.e. Building). These are just a few examples, and remember every deal is different.

### Reasons for setting up a JV

If you are looking into doing a deal, but are not able to complete it on your own, for example because you don't have the finances you need, you may then look for someone that has the finances, but does not have the experience or education needed to conduct the deal on their own either. This would then allow you do conduct the deal using someone else's money, however for this to be appealing for the other party, you may need to offer a percentage of the profit at the completion of the development.

The above example is very stock standard, however all JVs will follow this concept. So reasons for doing a JV would be to open up possibilities, and allow you to be a part of deals you normally wouldn't be able to do on your own. Another example of a possible JV could be if you are all set up to do a development; you have the land organized and financed, plans have been done, however you do not have the cash flow to pay for the builder. An idea could be to offer the builder a JV, so rather than paying him a wage, he offers his skills and maybe even pays for materials, and you give him an agreed upon percent of the profit. The percentage he gets should not only cover his costs but ensure he gets a profit so to ensure he is happy with the deal.

### Benefits of doing a JV

- Building on your strengths.
- Improving access to financial resources.
- Combining your resources and assets with somebody else's allows you both to take on a project neither of you would otherwise be able to.
- You will get to access new skills, knowledge and experience - saving you time and money or possibly the other way around.
- You will have access to greater resources, beyond your own.

- You will have the opportunity to boost your market penetration and build strong associations within the property industry.
- There is no rule or limit as to what is allowed or not allowed as far as JVs go.

If you have completed our home study course your knowledge and expertise will be immense but perhaps you need the capital to see your ideas become a reality. You will then seek someone who has the capital but no idea how to use it. A Joint Venture in this case would see you both profit.

While each person is contributing, each person will also get a share in the revenues, sometimes also expenses, and control of the property, whatever is agreed upon at the beginning of the deal.

## **Important factors to consider entering into a Joint Venture**

- Screening of perspective partners.
- Due diligence – checking the credentials of the other part involved.
- Creating an exit strategy and terms of dissolution of the Joint Venture.
- There are of course some things that you need to be aware of and some factors you must consider such as trusting and liking your JV partners. If something does not feel right then it probably isn't. A JV agreement defines the terms and conditions and records the interests of both parties. It will provide you with strong legal recourse should a misunderstanding arise and the other party fails to fulfill its obligation while under contract.
- When setting up a JV it is very important to specify very clearly what each person's contribution is, and what each person will receive. This must be agreed upon, and put in writing before the deal is commenced.

## **Research**

It's very important that you do extensive research before entering into a Joint Venture. You need to know everything you can about the development, the area and particularly the person you are entering into a Joint Venture with. You will need to know what they are like as a business person, even if it is someone with whom you are close. You should research previous developments they have been involved in and speak with previous business partners. For example, you could speak with the builder of their previous project and ask questions such as what that person was like to work for, did he/she work with the builder in getting the project completed, did he/she follow through on agreements and such.

## **Get a Contract**

Joint Ventures involve complex contractual arrangements that should be left to your lawyers, particularly if there is a lot at stake, to ensure that your interests are properly protected and any disputes can be resolved should they arise during the development.

You need to have a good solicitor. When you're getting creative it comes down to whether or not you're able to back it with up with legal contracts. Don't rely on a handshake no matter how much you think you know a person. Even if the person you are looking to do a Joint Venture with is a family member, always put it in writing. Who knows what's going to happen with a relationship. Business is something separate so get a contract. Your solicitor should be able to think outside the box and come up with the contract for you. It is worth paying a little more for a solicitor that's going to be creative with you. Make sure they spend at least half their time dealing with property as this way they will be fully aware of what's happening in the property market, changing laws and any loopholes that may exist.

## Examples of Joint Ventures;

Anna has a lot of experience in property development but recent circumstances have left her short of money. She is out walking in her hometown of Noosa when she spots a development opportunity. It is a DA approved site for 26 villas. When she realises what an opportunity this is, Anna finds a builder who is open to doing a joint venture. They come to an agreement after some negotiating and sign a contract outlining their involvement, expectations and end result. The builder paid the construction costs during the development and retained 9 villas at the end. Anna only had to pay the purchase costs and did not have to pay construction costs therefore could afford to take on the development. The builder paid for all the construction costs during the project and kept 9 villas as payment for this.

Peter has a property in St Kilda, Melbourne by the beach. It is a vacant lot, 355m<sup>2</sup>, worth \$2,250,000, that has been in the family for years. Peter would like to develop the land but has no idea what to do therefore he advertises it. He meets with a developer and they decide to do a joint venture. The developer pays all the construction costs, consultant costs etc and sees the development through to the end but does not pay for the land. They then split the profits at the end as agreed and signed on at the beginning of the profit.

\*Please note; these are examples for demonstration purposes and remember that each JV is negotiated and agreed upon based on its own merits.

CCorp is always willing to consider doing Joint Ventures with our students who find a feasible site but are not able to take on the project by themselves.

We require the following information from our students so that we can carefully consider any deal that may be profitable.

- Completed feasibility study including a full list of costs, completed on the feasibility calculator in your course pack and using the list of costs as a guide to ensure you do not omit anything. We require a Margin on Development Cost of at least 20%.
- DA, copies of plans, etc – again you can use the guide as set out in your course packs
- Any photos, maps etc
- Any demographics studies you have done
- Any other relevant information you may have such as vendor details, others that are involved in the deal etc.

CCORP look forward to being able to help you get the best deal you can in your property developments.

For more information on CCORP and our home study DVD course please call 02 9371 4799.

\*Examples used are fictional and used only to demonstrate and educate the concepts.