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10 QUESTIONS FOR... PAUL KONDAKOS

Paul Kondakos, founder of RealtyHub.ca, answers your questions on the pros and cons of joint venture investment. But are some of those cons really pros?

Q: Why are more investors looking at joint ventures for their property deals?
A: The premise is a relatively simple one. Two or more parties enter into a business relationship for mutual advantage. More and more, seasoned real estate investors are looking to joint venture (JV) their property deals, as it offers them many advantages versus simply investing on their own. The primary advantages to the real estate investor are (1) access to capital (2) increased leverage and (3) greater success in mortgage qualification.

Q: What are the benefits of JV investing?
A: Participating in a JV can be an ideal investment strategy for someone who wants to partake in the advantages that investing in real estate have to offer such as capital appreciation, mortgage pay down and cash flow, but lacks either the time and/or the experience to invest on their own.

Q: What makes an ideal JV partner?
A: The ideal JV partner has access to capital (the more the better), has provable income (preferably T4 income), a strong balance sheet, good credit and has a basic understanding of how investment properties operate.

Q: Are JV investors more likely to encounter financing issues than solo investors?
A: The opposite holds true. Solo investors are more likely to have a tougher time financing a deal than JV investors. It comes down to simple math. Two or more investors in a JV collectively have more assets and income and can provide more personal guarantees than any solo investor can on his or her own within that same group.

Q: Where do some JV investors get it wrong?
A: Some of the more common mistakes include, but are not limited to, poor property selection, not understanding cash flow, offering too little equity to the JV partner, poor management, poor communication and not having an exit strategy, amongst others.

Q: If conflict arises between JV partners, what is the best means of resolving it?
A: This is where the old adage of "an ounce of prevention is worth a pound of cure" comes into play. The best way to resolve conflict between JV partners is to ensure that you have a comprehensive JV agreement in place at the outset, which contemplates potential scenarios of conflict and how to resolve them.

Q: What is the key to success in a JV partnership?
A: The single most important aspect to a successful JV partnership is regular communication. Keeping a JV partner in the dark can only lead to conflict if they get blindsided by a cash call or any other unfavorable news. I have found that monthly reports, online access to the JV bank account and "cc'ing" the JV partner on every email that pertains to the investment property keeps them fully apprised and content.

Q: What tips would you give to first-time JV investors?
A: In order to attract JV money, you need to focus on two things: (1) experience and (2) track record. JV partners want the best prospects for success and the best way to ensure that is to partner up with a JV investor that has both experience and a proven track record.

Q: If $1 million were to magically appear for your investment purposes, where would you put it?
A: I would invest the money in a multi-unit residential property within Ontario. More specifically, I would look to invest in Toronto, Kitchener-Waterloo, Guelph, Cambridge, Durham Region, Hamilton, Barrie or Kingston.

Q: What's your take on an old investor debate: cash flow or capital growth?
A: The prudent investor looks for both cash flow and capital growth. If a property has cash-flow, it can sustain itself indefinitely. If you buy the right cash-flowing property in the right area, capital growth is inevitable. If you are only focusing on capital growth, negative cash flow can easily become a reality requiring regular cash infusions, which makes for a very unhappy JV partner. ■