

Creating Successful Partnerships

*13 Tips for Finding and Establishing
Strong Collaborative Relationships*

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One way to get started investing in real estate is to partner with someone who has a resource that you need. Maybe you need money for a deal, or someone with a contractor's skill set to partner with on rehabs. Maybe you have money to invest, and need someone with the time to find deals for you to put money into.

No matter the circumstances, the following 13 tips are vital to consider when forming a successful partnership:

Tip #1: Assess Your Needs

First, determine what kinds of deals you want to invest in, and what resources you'll need to do those deals.

For example, if you want to invest in foreclosures but have poor credit or little cash, then you need a partner who can bring good credit and access to capital.

Or perhaps you're a contractor who wants to buy fixers to rehab. Maybe you could use the help of someone who has the time to find a deal and put the financing together, market the property for sale after the work is complete, and so on.

In any case, you need a partner to share in the work and share in the rewards. But what is it you need, exactly?

My philosophy is that it's best to use a partner only if you can't do a deal without one. If you can do a deal on your own and hire out the help you need, it'll probably be cheaper than partnering with someone to do the same work. For example, hiring a contractor to do one deal will usually cost less than having a contractor partner with you and take half your profit.

But if you have poor credit and can't get a loan on your own, then a financial partner may be necessary for you to do a deal.

Even if you can do a deal on your own, sometimes there are other reasons why you'd want a partner—moral support, accountability, motivation, the opportunity to learn from someone more experienced than you, and so on.

I suggest taking the time to write out what kinds of deals you plan to do, and what you need help with the most. What is the one thing that is keeping you from moving forward? That's the thing you need a partner for.

Or if you're already on your way and doing deals, what could the right partner do for your business? Could you more than double your income with the help of the right person?

Once you determine what you need help with the most, you can hire people to satisfy your smaller needs. For example, you wouldn't partner with someone to manage a property for you long term, because it'll cost you far less just to hire a property manager. The same is usually true with accountants, lawyers, and other professionals. They might be expensive to hire, but hiring is cheaper than splitting your total profits with them.

But having someone with money or more investing experience working along side you each day can often provide efficiencies that you can't buy from the aforementioned professionals. That's the mark of a good partner prospect—someone who has something you need and can't get by hiring someone on an hourly basis.

So figure out what you need and you'll start to see the types of people you'll want to approach.

Tip #2: Determine What You Have to Offer

Now that you know what you need, consider what you have to offer a potential partner. Why would they want to partner with you? What do you bring to the table?

Is it the time to find a deal and put it together? Is it money or good credit? Is it experience fixing up houses or managing construction projects? Maybe you own a large parcel of raw land and want to develop it with help from a developer. The possibilities are endless, so start thinking about what you offer that would be attractive to a prospective partner and write those things down.

Once you know what you have to offer someone, you can begin approaching others about forming a partnership with you to do deals together. By showing a willingness and ability to contribute something of value to the partnership, you become a valuable commodity to other investors.

Now take a look at the list of things you need, and compare that to the list of things you can offer. Now ask yourself, if you put these lists together and assume you have everything on both lists available to you today, is the value of the whole greater than the sum of the parts? Can you accomplish something together that neither person could accomplish alone?

Tip #3: Be Careful When Partnering with Friends and Family

Word to the wise: it will be tempting to partner with family and friends, but I suggest you use great caution in doing so, for several reasons:

First, does your friend or family member offer that one thing you need that is holding you back from moving forward? Probably not. For most people, it just feels safer to partner with someone you know because you already know and trust them. However, don't fall into the trap of thinking that you'll be cheated by anyone you don't already know. You can always work together on something small to "test-drive" the working relationship first.

Then if you decide it's not a good fit, then you can move on. But chances are good that Uncle Sal can't give you what you really need most from a partner, so no matter how comfortable you are with him, he likely won't be able to help you move very far forward.

Second, partnering with friends and family will change your relationship with them significantly. For example, you probably have less patience with coworkers who fail to deliver that report on time than you would have to have if your spouse took the kids to soccer practice instead of calling that Realtor back to schedule a showing. How will you handle that? In most cases, either your business or your relationship will suffer, and that's not good.

Third, how much of your work life do you want to take home? If your spouse is your partner, work will come up 24 hours a day. For me, I need to separate work from personal life. By working with someone you're close to, you never get a break from thinking and talking about work, and this can lead to burn out. I don't know about you, but I don't want to talk about evicting that problem tenant after my head hits the pillow at night.

Finally, if things go sideways with a business partner, you can always go your separate ways. But if problems arise in the partnership and your partner is a friend or family member, you can't easily separate the friendship from the work partnership. If you can't get along as business partners, that'll eventually bleed over into your personal relationship as well. If the business has trouble, how well do you think your marriage or friendship will hold up?

Tip #4: Partners Should Be Complimentary, Not Redundant

We've touched on this a little already, but let's explore skill sets a little deeper. Partners should compliment each other by each bringing something the other doesn't already have.

For example, two contractors with similar experience and skills aren't usually as effective a team as one contractor and one money partner might be. Two

accountants who want to invest together might be better off finding partners with an entirely different skill set to work with. To use a sports reference, if you're the quarterback, then you want a wide receiver on your team to catch your passes and move the chains forward. You don't want another quarterback, because then who will catch the balls you throw? Again, partners should be complimentary, not redundant.

Tip #5 Interview Prospective Partners

As you talk to potential partners, I think it's critical to have a serious heart to heart conversation about their goals, interests and values. Do they have the same or similar goals and values? Do you share a common world view when it comes to money? Even if you have complimentary skill sets, your partnership won't go very far if you have different goals or values.

Listen carefully to their words. When they speak, do they sound like they are afraid of the inevitable speed bumps that will come along, or are they optimistic that they'll overcome whatever they encounter with thoughtful determination and enthusiasm? Do they complain about previous partners or investing experiences, or do they talk of possibilities?

In other words, do they hold a world view of abundance or scarcity?

Listening carefully for clues to these questions is vital to preventing problems in the partnership later. In fact, if you're already in love with the idea of a specific person as a partner before you interview them, you're already in trouble. Explore these questions and look for answers to fundamental questions of values and goals. If their answers don't sound like your values and goals, move on to another prospective partner.

Tip #6: Define Roles & Responsibilities

Once you find a partner with complimentary skills and resources, as well as a common set of goals, interests and values, it's time to get down to business—there's work to do, after all!

Deciding who will do what work will largely come from the skills each partner brings. Again, write down the scope of work for each partner. What functional areas will you "own" in the relationship? What will your partner "own?"

By deciding who will "take point" on specific tasks at the outset of the relationship, you'll avoid stepping on each other's toes down the road.

Tip #7: Establish Your Decision-Making Process

When you need to make decisions, how will you make them?

One way to answer this question is to determine which partner will take the lead on each functional area or task. For example, Partner A might be lead on choosing a contractor, overseeing remodeling work, and managing the budget. Partner B might take the lead on securing financing, closing the deal and taking care of all the legal tasks.

Now consider how much input Partner A will have on the financing and legal stuff. And how much influence will Partner B have on the budget and construction management?

Determine in advance how much input Partner A gets to have on decisions that fall under Partner B's domain and vice versa. Will the lead partner always get the final say, or will you make decisions jointly? Make it clear how you'll make decisions and you'll avoid a lot of conflict down the road.

And if you strongly disagree on how to handle a certain situation, remember that it's okay to disagree so long as you're respectful. Talking through the issue and brainstorming alternative solutions can often lead to an even better decision than either of you would've made on your own. It's not only okay to disagree; it can often be constructive, positive, and productive!

Tip #8: Agree on Your Compensation Structure

Not all partnerships are 50/50. If one partner brings significantly more to the table than the other, it makes sense to compensate the substantial partner accordingly.

Be fair about what you bring to the partnership. Look objectively at what each partner brings, and consider which partner would be harder to replace. Then you'll start to get a sense of the value of each partner.

For example, the experienced investor with cash in the bank and good banking relationships is probably worth more to the partnership than the inexperienced partner who has the time and desire to go find a deal and put it together. Be honest about what you're worth and what you're able to bring to the venture.

I once had a couple of guys with no experience come to me proposing a partnership. They wanted to develop and build a condominium building on a piece of property they didn't yet own (a big undertaking for a first deal, huh?!). They had the property under contract, but couldn't get a loan to close the deal. Their proposal to me was that I would use my credit to get the construction loan. I

would provide all of the equity and do all the development work myself (since they had no experience), and I would allow them to learn the development process. They would bring the dirt they had under contract.

The deal? I would get 20% of the profit.

After I finished laughing, I told them I could get a Realtor to find me a piece of dirt and it would only cost me a 6% commission. Why should I pay them 80% and do all the work myself? And give them a free education to boot?

Needless to say, they had badly miscalculated their value, and I politely declined their "offer."

But let's say we could've come to an agreement. How would we structure the compensation?

The way it's done is to pay back the bank loan first. The bank always gets their money ahead of the partners.

Once the bank loan is retired, then the partner putting up the equity usually gets their equity back, plus a "preferred return." This is a return on just the cash put into the project, and is based on a percentage of the equity.

For example, if I put \$20,000 cash into a project and get a 25% preferred return, then I would receive my \$20,000 investment back, plus \$5,000. This is before we split any profit as partners. You pay the preferred return on the equity after the loan is paid off, but before you split other profit. It's this preferred position ahead of profit distribution that makes the business deal attractive to an equity partner.

Then after you pay the equity's preferred return, you'll split any remaining profit between the partners according to a predetermined percentage or lump sum.

For instance, if the remaining profit is to be divided 60/40, one partner will get 60% of the remaining profit, and the other partner gets 40%. Or maybe one partner gets a lump sum, say \$30,000 for example, and the other partner gets all the remaining profit.

The possibilities for how you can structure the compensation are only limited by your imagination. You can structure it any way you want, so long as both partners agree. Just be sure that the compensation is equitable considering what each partner brings to the partnership.

Tip 9: Communicate Often

One of the biggest problems in any relationship is lack of communication. So ask your partner how they like to communicate. Do they prefer routine communication by email, phone, or in person? How late is too late to call? Is it okay to talk shop on the weekends, or are those "days off?"

How often will you meet? When will you meet? And will your meetings be in person or over the phone?

The more activity your business has, the more often you'll probably need to meet. Maybe you'll meet once a month, once a week, or once a day, depending on how quickly things move in your business or project. Be sure to put recurring meetings on the calendar now.

Tip #10: Communicate Well

The other side of the communication coin is knowing how to speak to your partner. Most business ventures experience stressful times once in awhile, and having a level of professionalism to your communication will help smooth out rough patches. Here a couple of methods for effective communication that I've found helpful:

1. **Speak performatively.** It doesn't do any good to complain about a situation if you're not going to do something to change it. For example, a partner speaking passively might say, "We don't have enough money to finish the job."

In contrast, a partner speaking performatively might say, "We don't have enough money to finish the job, and so I'm going to apply for a temporary credit line to give us the funds we need to get the job done."

Speaking performatively means assessing a situation and stating a plan of action. Using the above example, "We don't have enough money to finish the job" is passive, because no plan of action is stated. It's the "and so I'm going to do XYZ..." that takes a complaint and makes it positive and constructive.

2. **Don't give orders, make requests.** Make requests with deadlines and hold the other party to them. If your partner misses a deadline, ask if there's anything you can do to help complete the task at hand.

An example of giving orders might be: "I need you to do a better job of making sure the Realtor is doing her job and showing the property."

An example of making a request might be: "Would you mind asking the Realtor to send us a marketing report each week detailing her marketing activities and the number of showings she attended and their results?"

By making requests rather than giving orders, you make your partner feel like a valued equal rather than a subordinate. Remember, your partner is your partner, not your employee.

Tip #11: Agree on an Exit Strategy

All good things must come to an end eventually. Maybe it's because you both become so fabulously wealthy that you decide never to work again. Or perhaps the life circumstances of one partner change due to death, divorce, loss of income or personal bankruptcy, etc.

Decide ahead of time what steps the partnership will take if one partner is no longer willing or able to continue on the partnership. Will one partner buy the other out? How will the partnership dissolve?

Tip #12: Write It Down!

Once you've established how you'll handle all the details in Tips 1-11, it's time to put your agreement in writing. A written partnership agreement will give you tremendous freedom and confidence knowing that you and your partner are committed to your mutual success. It also clarifies roles, responsibilities, compensation structure, and what happens in the event of disputes and dissolution of the partnership.

A good written partnership agreement should address the six journalistic questions relating to the partnership:

Who: Who are the partners?

What: What is the purpose of the partnership? What business are you in? Is it a one-off investment in a single property, or is it an ongoing partnership that will invest in many properties over an indefinite period of time?

When: When does it become effective, and how long will it last? It doesn't necessarily need a specific end date, but an exit strategy would be a good component to include.

Where: Where will the partnership operate and what is the address that external entities should address mail to?

Why: Why are you forming the partnership? What skills or resources does each partner bring?

How: How will each partner participate in the relationship? This is where you define roles, responsibilities and profit structure, as well as methods for dispute resolution and dissolution of the partnership.

Pay special attention in this section to how you'll finance the business or investment, which partner is contributing which assets, and the circumstances under which a partner may transfer their interest in the entity.

Also, you may find it helpful to engage the help of an attorney in drafting your partnership agreement. A good attorney will craft the agreement to be equitable to each partner, and to address issues you may not have thought of. They've seen and written hundreds of business agreements, and know how to structure them to maximum effectiveness.

Tip #13: Cultivate Mutual Trust

Trust is the key to overcoming the greatest obstacles your partnership will ever face. You must be able to trust your partner, and they must be able to trust you.

You can develop trust in four ways:

1. By what you say and how that compares to what you do.

For example: Do you follow through on your commitments? Are you honest about your skills and experience? Do you tell fish stories, or do you let your results speak for themselves?

2. By what others say about you.

For example: If a prospective partner were to ask three people who had worked with you in the past to each tell a story that illustrates their experience with you, what kinds of stories would they tell? Would you cringe at the thought, or would they be stories you'd be proud of?

3. By your actions over time and how they contribute to the partnership.

For example: Anything worth doing requires some sacrifice. How much are you willing to sacrifice to make the partnership a success? How hard are you willing to work? How committed are you to the business and to your partner's success as well as your own?

Trust also comes from being reliable. Do you deliver on your promises on time as expected? Do you arrive to meetings on time? Do you act professionally and appropriately in all business activities and events?

4. By how you react to ethical gray-area questions.

For example: People judge you by the way you judge others. If an opportunity to advance the partnership comes up, but you have to do something ethically questionable to make it happen, what would you do?

The short term gain you might make by taking the questionable path will never outweigh the respect you'll gain from those around you by sticking to your principles. Your integrity and reputation are assets you can't afford to lose by succumbing to greed. Do the right thing and it'll pay off ten-fold over time in the trust and respect you'll earn from your partner.

Trust is built over time. It is more valuable than either time or money, and you can only earn it by dealing honestly and in good faith with other people.

In Conclusion...

Successful partnerships are not an accident. They are the result of thoughtful, deliberate collaboration and constant maintenance. I hope this guide will serve to make your partnerships as successful and profitable as you hope them to be.

Good luck!

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