RealtyScout: Joint-Venturing to Success

Not too long ago, I had a conversation with Bob (not his real name) about real estate investing. Bob wanted to invest in a 1-bedroom condo in downtown Vancouver for himself but didn't have enough money. He complained that the market is overpriced and he is waiting for the housing bubble to burst. I asked him what he expects would happen if the bubble did burst, and how he's prepared himself to buy his first property. Without certainty, he says that homes will lose some value, but he hasn't considered an investment plan other than to save money. I go on to suggest that it may be helpful for him to start looking at properties and to start investing his money by joint-venturing with people he can trust. "I don't have time" he replied, "and I'd prefer to invest on my own."

Bob's idea to save money for a downpayment to buy real estate is not a winning stategy. Here's why:
A typical 1-bedroom condo in Vancouver costs $350,000. Assuming Bob qualifies for a conventional mortgage, he would need to come up with $70,000 for a 20% downpayment. Bob earns high income, but he only has $18,000 put aside and can only save $18,000 per year through his job. It would take 3 more years for him to accumulate $70,000.

The longer Bob waits to invest, the further behind the market he'll be. For each year that passes the real estate market may appreciate 8-15% while the bank pays 2-3% on his savings. In addition, Bob's employer increases his paycheck only 3-4% per year -- barely enough to outpace inflation.

Even if the housing market crashed and properties lost 20% of its value after 4 years of steady appreciation, Bob would still not be in a position to afford his first property.

Obviously for Bob, coming up with $70,000 was out of reach. But $70,000 amongst three other investors is more achievable. Each investor can contribute $17,500 and take profit share on the capital gains.

By joint-venturing, Bob would be able to start investing sooner. His money would start working early, gaining equity on the property as it appreciates with the market. Although Bob won't earn 100% of the capital gains from the property, his profit share will be proportionate to his contribution. He can invest into more joint-ventures as he continues to save more money, never letting himself fall behind the market.