

TALES FROM THE TRENCHES

BY BARRY C. MCGUIRE

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FOURPLEX PUZZLE (PART ONE)

Our member had a portfolio of 10 single-family dwellings, a nice mix of bungalows and town houses. All these properties were operating nicely and the equity build-up was outstanding, but took a little more work than our member wanted. His success was not going unnoticed. Family and friends had been watching his real estate adventures with interest. As the properties started to accumulate, and as so often happens, the comments changed from, "what, are you crazy?", and, "the tenant problems will kill you". Now he was hearing, "you know, I'm kind of interested in real estate", and, "if you need any extra money, call me".

At this point, our member thought his real estate business might best be grown by moving on to multifamily properties, fourplexes were his first choice. The trouble was he was out of money. The obvious choice would be to talk to some of those possible money partners who were now singing a different tune. With 10 successful single-family properties, everyone wanted to throw money at him. That was great, but our member had a difficulty.

He was extremely cautious by nature and didn't know anything about multifamily investing. He thought it would be relatively the same as buying single family properties, but he didn't know. He studied all the available material on myreinspace and read some other books and materials published by non-REIN authors. He knew he could do it, there were lots of checklists and other people had done it. Why couldn't he?

The answer was, of course, that he could be a successful multifamily investor. But he just had to do it on his own first. That's the way his personality worked. Buy some properties just like he did with single-family, work his way through the problems and issues, set up the systems and then move on to attracting money partners. The last thing he wanted to do was dive into multi-family, get himself in trouble and then have to explain that to his new money partners.

Wanting to buy multifamily properties and not having any money is not a good mix. Where to get the money? The obvious answer was to tap the equity in his 10 single-family properties. He could re-mortgage but that would impact cash flow and move it out of his comfort zone. What about joint ventures?

In anticipation of growing his business by joint venturing, our member had already taken a good look at the material on Myreinspace. He was a regular on the joint venture forum. He bought the "Joint Venture Secrets" package offered by our own Don Campbell and Russell Westcott and read it a couple of times from cover to cover. To top things off he took Barry McGuire's "Joint Venture Focus Workshop".

Next, he took the financial and other information from each of the properties and worked it into a presentation showing how the properties had performed since acquisition and projected how they would perform in the future using very conservative numbers. He worked out a letter of intent and a joint venture agreement.

Then he went to some of those suddenly interested friends and relatives and offered them interests in his 10 single-family properties. Most money partners were happy with the standard 50-50 joint venture although a few wanted a slightly higher percentage because, after all, "they had the money".

In the end he negotiated enough successful joint ventures to start the hunt for multifamily properties. Fourplexes continued to be his first choice.

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LESSONS LEARNED:

1. Determine your real estate strategy, and stick with it. There is nothing wrong and everything right about 'slow and steady'. The success you achieve here will often generate interest from potential money partners.
2. When it is time to develop a new strategy, educate yourself as much as you can. All new strategies take a lot of new effort.
3. Remember, you can joint venture an existing property as well.