

# TALES FROM THE TRENCHES™

BY BARRY C. MCGUIRE

## REAL ESTATE BETWEEN FRIENDS AND FAMILY

The statistics are horrible. I've seen commentary that says 50% of the real estate deals you do with family go sideways. This situation is bad but it's even worse when dealing with friends because 75% of those deals don't work out. I'm not saying these are exact numbers or percentages. But, I know for sure that you face big risk if you enter into any kind of property transaction with friends and family.

Why would this be? After all, it's often very easy to get into deals with friends and family. You know and trust each other and it just often seems to be the thing to do, it just makes sense. Dealing with third parties you don't know can take a lot of time. Relationships have to be established, trust developed, and third parties almost always apply that wise real estate investment adage, "trust, but verify."

When deals with friends and family go bad, you almost never recover your position. Because, what are you going to do, sue your friend or your brother? Almost no one does that because launching a lawsuit is the end of your relationship. Most people write off the investment in favour of preserving the relationship. Often, as time goes forward, no one talks about the issue, and any relationship becomes strained anyway.

What can you do? One basic investing rule is that you don't commit to a deal until you have done your due diligence. This means that you have done enough verification in order to make an informed investing decision. Once you have accomplished sufficient diligence to make that investing decision, you can say to yourself, "I have done my due diligence."

When dealing with friends and family this rule is even more important. You most likely have to do more diligence. Most friends and family deals have insufficient diligence done by both parties. Relationship overrides what you would normally do with any arm's-length third-party. Actually, with friends and family, you have to do more diligence than you would with third parties just to ensure you are doing enough!

It's difficult because it seems like you shouldn't have to do as much diligence. Your friend or your brother will definitely not understand why you want to go through all of these diligence issues. "We trust each other, let's just do it," is essentially what you'll hear. The bottom line is, even with a lot of diligence, investing with friends and family is fraught with peril. If it goes bad for any reason, it's your fault, no matter how much diligence you did, or how much you explained, or how much paper you got everyone to sign.

### Lessons Learned:

#### 1. **Diligence is Always Important when Investing**

When dealing with friends and family, diligence is even more important. It protects not only your investment, but also your relationship.

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2. **Overcome Objections**

When your friends/family resist, try saying: “Love you, you’re my brother, but I’m taking this to my lawyer because I want you to continue to be my brother.”

3. **Spend the Money**

Diligence sometimes costs a substantial chunk of money for third-party experts, whether they be a home inspector/engineer or perhaps a consultation with your lawyer or accountant. It’s always money well spent to help you make an appropriate investing decision.

**FOR ALL YOUR ALBERTA REAL ESTATE LEGAL NEEDS,  
CONTACT BARRY MCGUIRE TODAY!**

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