Joint venturing

HARRY SINGH considers the benefits of joint venturing when it comes to expanding a property portfolio....

THE Oxford Dictionary defines a joint venture as, 'A commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct identities.'

Joint ventures have a role to play in many areas of business, including, but certainly not limited to, raising the funds to expand your property portfolio with a view, for example, to receiving passive income through buy-to-let.

The critical element is how quickly you can recycle your cash to start the whole process again. No matter how much capital you have, you will eventually run out of money. To overcome this, I use a combination of funds from private investors and advanced strategies to take all my money out after six to nine months, so I have no money tied into the property and am free to go on to another deal.

Leveraging to build health?

Some call this concept leveraging to build wealth which, in this instance, in a nutshell, means getting investors on board to help you improve your income stream. So, how does this work?

Perhaps the easiest way to explain is by comparing deals using your money versus that obtained via a joint venture.

So, first of all, here is an example of the figures involved in an investment whereby a 25 per cent deposit comes from you and 75 per cent from a mortgage lender. If the purchase price is £100,000, your deposit is £25,000 and the buy-to-let mortgage fulfils the remaining £75,000 need. You might choose to do it this way as it is the least amount of capital required to fund the purchase, if you are going it alone. Here the time factor is not especially critical to the seller, but they still want a guaranteed quick sale.

Then there's the 100 per cent cash purchase, which you may want to embrace if you can't wait to get a mortgage approved and the deal is so good you don't want to waste the opportunity; speed is essential here.

Then we move into the joint venture idea. Using the same £100,000 example, you might get a 25 per cent deposit from a private investor and 75 per cent from a mortgage lender; therefore £25,000 comes from your investor and you have a £75,000 mortgage. This is a good way to move forward if you have run out of capital; you can use private investors and split the profits, either when you sell the property or you may choose to share the rental profits on a monthly basis.

There is also the situation whereby you agree that a private investor will make a 100 per cent cash purchase. The reasons for this are the same as if you were to be the cash purchaser – i.e. speed is of the essence and a mortgage is not a viable option for whatever reason.

There are a number of other more complex strategies we can use to fund our property purchases, but these will be more suited for the advanced and experienced investor.

Where to start?

If you have a number of private investors, then you are not using your own money and can do a number of deals. If you use your own money, you will generate more profit for yourself, but you will be limited by the number of deals you can do by the amount of capital you have. I would rather have 50 per cent of hundreds of deals than 100 per cent of a couple of deals. That's why I tend to prefer to work with private investors. I work with 10 or 12 carefully selected investors, to minimise the risk and maximise the profits from property.

Reader enquiry: xxx

A case study

Property value – £250,000
Purchase price – £180,000
Selling price – £235,000
Profit in 4 months – £55,000

In this case, a private investor was used to help fund this deal and they netted 50 per cent of the profit, which was £27,500 (before all costs). Our profit, therefore, was £55,000 after four months. Bear in mind you would need to deduct buying and selling costs, which in this example are £5,000. Also, you would need to check with your accountant regarding any tax implications on the capital gain you have made.

The seller had responded to one of my marketing strategies. He was emigrating and had a very tight time frame. He could not afford to waste time with estate agents and endless viewings and no guarantee of a sale. He was happy to clear his mortgage of £145,000. However, I said I could clear his mortgage and leave him with an extra £35,000 for moving costs and rent for his new home abroad. He was delighted with this deal, we wrapped all this up in under a month and he had all the loose ends tied up before he made a fresh start abroad.

Everyone benefitted from this deal.

About the author

After qualifying from Leeds Dental School in 1996, Dr Harry Singh followed the traditional VT, Associate and Principal routes in dentistry, owning three dental practices along the way. Over a two-year period Harry bought 27 properties and sold six. Eventually he found that he was making more money from property and practising dentistry two days a week, rather than full-time. He now has a property portfolio valued at around £7 million, yielding a passive income of £8,000 per month and has set up The Dental Property Club to offer advice to dentists interested in building property portfolios. Contact harry@dental-propertyclub.co.uk for more information.