

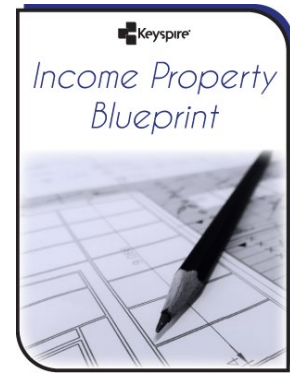
Module 2 – Lesson 13

Private Equity Questions and Responsibilities

FUND



Week 26



Every Joint Venture must be individualized for the circumstance and for the parties involved. Here are some things to consider and suggestions for conversation with your potential co-venturer(s). Note these can be revised and amended to suit your personal investing strategy.

Joint Venture Questions to Ask

Decide Ahead

- Who puts in what? Consider time and money.
- What are the initial contributions?
- Who will be on title?
- Will title be held personally or by a corporation?
- Who will qualify for financing?
- Type of property/investment to be considered
- Preferred investing market
- Maximum capital contributions required (including down payment, closing costs, initial improvements, JV agreement legal costs, etc.)
- Scope and budget of renovations (if applicable)

Responsibilities

- Who will be responsible for:
 - Property management, or managing the property manager?
 - Tenant placement, vacancies, evictions?
 - Managing tenant interactions including phone calls, emails, maintenance requests, complaints?
 - General property maintenance and repairs?
 - Renovations, either doing the work or overseeing contractors?
 - Monthly, quarterly, and/or annual financial reports?
 - Monthly, quarterly, and/or annual maintenance reports?
 - General bookkeeping?
 - Organizing snow removal, lawn maintenance, property cleaning?
 - Other?

Decision Making

- This can be difficult with multiple owners, so it's recommended that you clearly outline the decision-making process. You will need to decide how much you want to be involved.
- Who makes the final decisions?

- Who decides when and what repairs are completed?
- At what point does everyone need to give financial approval for larger expenses? Does this happen at a specific price point? For example, all items above \$2500 needs to be authorized by all owners. Or maybe if costs go over a monthly budget then all owners must approve spending.

Profit Share

- 50/50 is most common but it isn't mandatory.
- Does the profit share start after the initial contribution is paid back?
- If so, how do you balance out the amount of time the 'working partner' put in?
- When and how are the profits paid out?
- After the property is 'up and running' are all of the expenses and profits divided 50/50?
- What happens to profits during a refinance?

Cash Calls

- What is the process for unforeseen repairs that were not factored into the maintenance/repairs budget?
- Who pays for unforeseen expenses? Are they split according to profit share?
- Will you start with a contingency account at the time of purchase to help minimize the possibility of a cash call? How much will this contingency account hold and who will contribute this amount?

Exit Strategy

- What is the exit strategy?
- Is it clearly defined?

Early Exit Options

- How often is the property reassessed as a business? Every 6-12 months?
- How does one party get out of the agreement?
- How do both parties get out? Consider adding a 'shot gun clause', right of first refusal, and/or other exit clause as outlined by your lawyer. This means that if one party wants out, they can propose an exit. It needs to be acceptable and fair to both parties with no difference in negotiation.
- What would happen in the event of death, illness, bankruptcy, or other unexpected life event?