

The Troika

The Investor, Builder & Real Estate Agent as a Team

I often equate the relationship between the real estate investor, the builder and the real estate agent to a Russian troika. The troika is a carriage pulled by three powerful horses, all positioned abreast with none in front of or behind the other, pulling in unison towards their destination. Troikas are represented in classical literature as a powerful, fast moving force that are virtually unstoppable. That is the way I would describe this relationship in its ideal form. When everyone is clear on their role and doing their perspective jobs effectively, this triad is a money making machine. However, if one falls behind, the wheels can come off the carriage, slowing progress and profit down to a painful grind.

You need a highly skilled team that understands their roles in the relationship, i.e. their part of the troika. What role does each entity play?

The Investor

The investor, to state it plainly, is the person that brings the money. This includes some seed money in the form of cash, with the lions share financed. The two most common financing methods are equity lines of credit and construction loans. An investor's level of involvement in a project varies based on what their individual goals are, and their experience and comfort level working with the agent and builder. In our experience, it often makes for a smoother project and better outcome if the investor takes a step back after the due diligence period is over, the lot is purchased and house plans are decided on. Once the project passes this phase, generally speaking, the less people required to make decisions, the faster the progress.

The Agent

The agent's job is to help find the land for the project, assist with due diligence, and make recommendations on the 'highest and best use'¹ for each piece of land. A good agent will be familiar with the pros and cons of the areas of town you are looking to build in, construction time lines, retail pricing and setting realistic expectations for the investor and potential buyers and their respective agents. An agent that will "tell it like it is" is invaluable.

The Builder

While the builder is the guy that puts the sticks and bricks together to make a house, there is much more to their role. The builder needs to be well versed in conducting due diligence, construction timelines, accurate budgeting, navigating local bureaucracies, project management and setting realistic expectations for the investor and the agent.

Each role is essential to the process in order to get optimal results. Without the right investor, there is no consistent source of money for the project. Without the right agent, your project could be built in the wrong part of town or with the wrong house on an otherwise great lot. Without the right builder, the project could spiral out of control and exceed the timeline and budget.

Setting Expectations

A highly skilled team is crucial but perhaps the most important factor in making this whole process work is realistic expectations.

The investor must be thoroughly educated about the process in order to have realistic expectations.

They need to understand how much cash on hand is required, how long the project will take and what their potential profit will be at the end of the project cycle. New investors often have an unrealistic expectation of these things, but investors need to understand the entire process with no sugar-coating. The agent must help set expectations for the investor and manage expectations for all potential buyers and their agents. Unfortunately in this business, we often encounter buyer's agents that promise the impossible to their buyers, bringing unnecessary chaos and frustration to the process. As stated before, you want an agent that "tells you like it is". Conversely, some seller's agents fail to set realistic expectations in terms of time on market or future sales pricing, which also brings unneeded pain to an already complex process. Setting future pricing conservatively sets realistic expectations and could set you up for a great end to a project if it sells for more than originally anticipated.

The builder should be upfront and realistic about timelines and budgets. The speculative real estate market is a complex investment vehicle that can deliver great rewards. You could turn a significant profit and your investment could become a real asset to the community, not just some number on a computer screen on Wall Street. However, investing in the spec market also comes with some inherent risks. The builder and the agent need to be constantly on the lookout for potential pitfalls in order to help steer the investor.

By working together, as one complete troika, the team will travel through this process as smoothly as possible.

¹ 'Highest and Best Use' is a term used in the real estate industry to describe what is ultimately the best project or build for a given piece of land that can be sold for the highest price.

