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THE ROLE OF
JOINT VENTURES
IN HOUSING DELIVERY

As **John Rowan and Partners** continues its series of articles looking into the role of Joint Ventures (JVs) in housing delivery. We talk to our client **John Knevett**, former deputy CEO of A2Dominion Group and Chief Commercial Officer of its private development arm, Fabrica, about his experiences with JVs. In this article, John who now runs his own small consultancy advising Housing Associations (HAs), the private sector and financial bodies and sits on the executive committee of Vanderbilt Homes, talks about the history of JVs and offers his advice to HAs looking to set one up...

I first started to take notice of JVs as they started to appear on the affordable housing scene about ten years ago. They had existed before then, but this was when I first saw the opportunities they could provide for housing delivery. I'm not keen on taking the pioneering risk, but try and follow closely behind others to pick up on their mistakes and improve on the process. It's about treading the fine line between innovator and alert follower.

However, I quickly made up for lost time and since then I've been involved with ten major JVs worth a total gross development value (GDV) of over £2bn. In this time HAs have moved from being passengers in the process, to financiers and contributors to now very much active partners.

So what drove this growth?

Behind this increase in the use of JVs has been the desire from HAs to move into the developer space. Fundamentally, associations need to develop or have a source of stock coming in. Previously, many HAs relied on private housebuilders to supply housing through their section 106 elements. But ten years ago when grant funding dried up and the housebuilders went into hibernation, the JV seemed like the perfect solution. For the HAs they were a great way to gain experience and learn how to grow their own housing programmes through direct development. >

For both sides there is also the element of de-risking a project and JVs are a very good risk sharing platform for both public and private sector organisations. Today most social housing projects in London and the South East still need subsidy, so HAs have had to go out and develop in order to cross subsidise their own housing stock.

A JV also helps HAs to access competitive supply chain costings. HAs can't compete with a PLC housebuilder's supply chain and it would be even more expensive using a main contractor. But with the right JV you are able to tap into that supply chain, while also having more input into the design and specification.

From the private housebuilder perspective, they get an attractive partner with the ability to pre-purchase both the affordable and often an element of the private housing stock. This makes HAs an attractive partner for developers with good returns on capital employed (ROCE) and access to funding on favourable terms.

The added benefit of the long-term vision of an HA, means that housebuilders may even benefit from a ready-made exit strategy should the market deteriorate, as HAs rarely walk away from problem schemes. This gives JVs a strong commercial upside due to the advantages they create for better quality housing, supply chain costs and increased certainty of delivery. Which in turn gives great comfort to funders and private equity players that, even in difficult markets, are comfortable to deploy capital and help fund projects in the context of a JV.

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The challenge of cultures

Of course these benefits don't come without their challenges and bringing together two very different organisations can be tricky, especially with their historically long term vs short term outlooks.

For example large PLC housebuilders will have shareholders and analysts looking over their shoulder at their return on capital. As it comes to the end of their financial year they may decide that they want to move homes on to increase cashflow and profitability. Conversely a HA doesn't mind which side of the financial year the profit sits. Most HAs don't have the same obligations as a PLC or the same pressure on cash, they have healthy balances and utility like revenues coming from their core businesses.

But with careful management this difference in outlook can be a virtue for the HA. For instance, if the market collapsed and the PLC partner is in need of revenues, the HA is in a perfect position to step in and buy units at cost plus a management fee – potentially a 20% discount. HAs can then go to Homes England with an offer of another X additional homes and ask for a further discount as a grant.

So in numbers this could (purely theoretically) mean buying a £300k home for £240k – then securing a further £50K grant from Homes England which would give the HA an actual cost of £190k. This could then be used for shared ownership, affordable rent or discounted market sale. In this way a JV has turned one partner's necessity for revenue into a benefit for the affordable housing sector.

Bring in the experts

When setting up the combined JV team you need to be clear on roles and responsibilities and don't try and reinvent the wheel just because it's a JV. These partnerships are not bullet proof and are still exposed to the same market risks as any other housing development. So it is vital you have the right advice around you.

That means building the right team for project and cost management, legal agreements, quality control and in a wider sense of being able to market test the cost, price and quality.

I may be very experienced in delivering housing developments and JV's but I still recognise the importance of having the right people advising me. I have always liked to have a mix of inhouse and external expertise, as the scale of JV projects means they really need third party support. >

Established consultants like John Rowan and Partners are perfectly placed to bring technical and commercial support to a project. Bringing them in at an early stage is important as they give you a good sense check on pricing and the market. As they are dealing with so many clients in the same sector – you get expertise on your scheme based on a wide pool of examples. Having that independent sense check from a trusted company, which is working for a mixture of HA and private sector clients is where you really gain added value.

Choosing the right partner

Understanding the different pressures on each partner is important for a JV to work. My advice would be to work through these pressures by highlighting your non-negotiable items at the start. This way you will build trust with each other and insure the alignment of objectives.

Further to this you need be aware of other projects that your partner is exposed to. While your JV may be going well, you want to avoid the 'domino effect' if your partner is involved in a more risky scheme elsewhere. My advice is, if in doubt protect yourself, get a parent company guarantee or a bond in place.

Communication is key

At the end of the day you have to realise that things will go wrong and work together to resolve them. JVs won't operate unless you have really strong information management and both parties can work with a 'common' hat on rather than trying to operate in isolation of your partners.

When done right, the time, IP and marketing invested in getting a JV deal put together is well spent. Setting up a repeat model for a long and profitable future with your JV partner, while helping to increase the delivery and supply of much needed housing to the UK. x

About John Knevett and John Rowan and Partners

With over 30 years' experience in the housing sector, John has worked across a variety of roles including most recently developing a hybrid business model fusing the best of the HA development world and the creation of Fabrica, a 100% owned private development brand for the A2Dominion Group. The brand won awards for medium house builder of the year and large developer of the year - becoming the first HA Group to achieve such accolades against the private sector.

Following the merger of A2 and Dominion, John Rowan and Partners met and collaborated with John Knevett on their first JV back in 2008. The project was called The Wharf in Waltham Forest adjacent to the river Lea and provided over 120 new homes.

John Rowan and Partners', Chairman and JV Specialist, Mash Halai has played a central role at all times, working with the various companies of the A2Dominion Group since 2003 and helping the Group to deliver over 2,000 homes with a further 1,000 in the development pipeline.

Mash Halai and John Knevett

Today, John sits on the executive committee of Vanderbilt Homes and runs his own housing development consultancy, working with HAs, the private sector and financial bodies - drawing on his substantial knowledge and experience to help others realise their housebuilding aspirations.