Why a Joint Venture in property development could be a good opportunity for you

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INTRODUCTION

To those who don't operate in the corporate world, the term 'Joint Venture' might seem somewhat daunting. Even a form of business jargon.

Most often it refers to *a commercial enterprise undertaken jointly by two or more parties*, but you're probably much more familiar with joint ventures than you think.

That's because individuals and smaller enterprises are regularly presented with opportunities that they simply can't take on alone, so they find others with complementary skillsets and/or the necessary resources and join forces.

Much more can be done far more efficiently – and, importantly, cost effectively – when a suitable strategic alliance is formed.

A good joint venture is always an attractive proposition to all involved, because they can achieve more together, and make more money, too.

Apple founder Steve Jobs, while not specifically talking about joint ventures, referenced the most successful musical group of all time to explain how the right combination of talents can multiply and amplify the output.

"My model for business is The Beatles. They balanced each other and the total was greater than the sum of its parts. That's how I see business: great things in business are never done by one person. They're done by a team of people."

Both The Beatles and Steve Jobs knew something about collaboration and success.

THERE ARE JOINT VENTURES EVERYWHERE

Before we let the definition of a joint venture become too broad, it's important to make a key distinction: it's only a JV if the parties involved retain their own separate identities, while coming together to undertake a particular project.

A JV isn't the same as a regular partnership, where the parties tend to join forces and work together regularly, if not all the time, due to their common objectives and complementary capabilities.

The thing that often brings two or more parties together to undertake a project as a joint venture is that they each have something of value to bring to the table, but need what the others have to get the job done and create something of even greater value.

A total greater than the sum of its parts.

The biggest organisations in the world regularly look to other like-minded companies to form strategic alliances that aim to deliver mutually beneficial outcomes.

Microsoft and General Electric formed a health IT joint venture in 2011. Caradigm brings together technology and clinical applications.

BMW and Toyota have a joint venture that researches hydrogen fuel cells, vehicle electrification, and ultra-lightweight materials.

And Google got together with NASA to develop Google Earth.

Meanwhile …

… at a far more relatable level, there are joint ventures being created every day.

When it's practical for individuals and businesses, big and small, to combine their resources to carry out a mutually beneficial project, a joint venture is both a logical and effective solution.

WHAT IS A JV IN PROPERTY DEVELOPMENT?

Property is a traditional investment asset class which offers attractive and potentially lucrative opportunities for investment.

When a landowner is sitting on a viable development site, it makes a lot of sense for them to partner with an experienced property developer to unlock the potential value of their holding, possibly to build an apartment complex or a set of townhouses.

While there are many ways to structure the arrangement you have with your JV partner or partners, there are four main types of joint venture that you might undertake, particularly in property development:

<u>A joint venture with business partners</u>

The partners might be friends or family members, colleagues or clubmates. You each invest on an equal basis and retain equal voting rights. You spread the risk while increasing the amount of capital that you have to invest.

<u>A joint venture with skilled partners</u>

In this type of joint venture, at least one of the JV partners adds technical or practical skills and knowhow to the project to complement the financial investment contributed by others. You may have the land, someone else adds some financing, another partner does the planning, and another brings construction expertise to the mix.

<u>A joint venture with a property development firm</u>

If you have the capital and/or the land, an experienced property development firm could then do all of the work, from design to handover – or even through to the sale of the finished property.

<u>A joint venture with a majority investor</u>

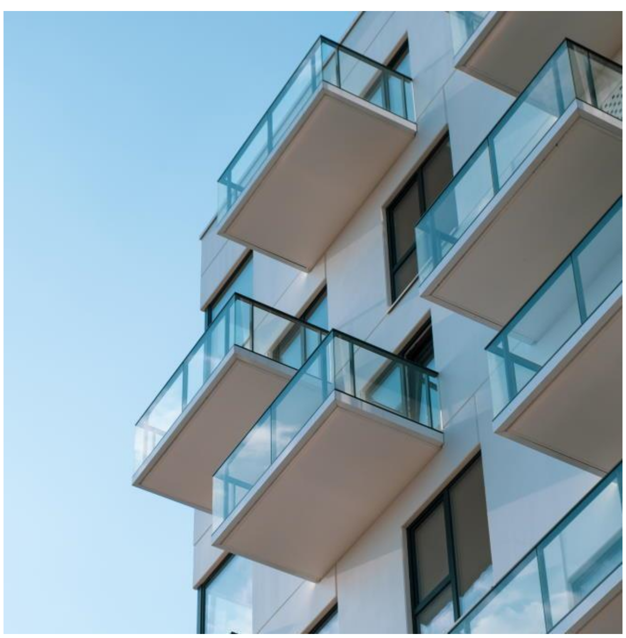
This type of joint venture is where you have everything you need to undertake and deliver a project, apart from the money. Generally, if you need a JV partner to provide the financial backing, they will only do that and leave the rest to you.

WHAT MAKES A JV ATTRACTIVE?

Even if a business might be able to accomplish something on its own, it can often make commercial sense to work with another company to streamline the work, ensure a better quality outcome, maximise the returns on the project, and so on.

Things that make a JV an attractive option include:

- The opportunity to pool resources and capabilities;
- The ability to access new markets and opportunities;
- The availability of broader funding options;
- The mitigation and sharing of risk;
- The potential to minimise costs and maximise profits.



CASE STUDY #1

We were introduced to a family that owned a fairly substantial block of land in an inner Melbourne suburb. It had been in the family for decades, with the family home on the block.

As one parent had passed and the other had moved to an assisted living arrangement, and their children had all established their own homes, they decided that they would sell the land.

After we were introduced, we took some time to get to know each other. Naturally, they wanted to understand whether our values were aligned and how we would work together.

As the landowner, the family was bringing to the table the land with an approved development planning overlay and unencumbered, financially – the ideal scenario for a property development joint venture.

As a developer, we committed to running the entire project, overseeing all aspects, including the financing of the development, in general, and the construction, in particular.

We were able to take care of all of the accounting, record keeping, and reporting, and take the project all the way through to pre-sales and sales of the completed townhouses.

WHY ENTER INTO A JV IN PROPERTY DEVELOPMENT?

In the property development sector, a joint venture partner most commonly contributes one or two of the three key elements: land, finance, or skills.

If you have access to one or two, you're most likely going to look for a JV partner who can provide the missing piece(s) of the equation.

Land

Most of the land in inner city and suburban areas is already in use. That means that suitable blocks of land for property development are hard to come by.

Landowners can, of course, just sell their land and move on, however, they're more likely to achieve a better return if they enter into a joint venture with an experienced property developer.

Finance

Most of the funding for property development is required up-front, before any revenue can be generated, so it's quite common for one of the partners in a JV to provide the bulk of the financing.

Sometimes the JV partner has direct access to funds, although in other scenarios
It's their strong track record that ensures the JV is able to raise the necessary development finance.

Skills

While there are a few variables around the land component and a handful of different options for financing, it's skilful execution that can make a property development joint venture particularly successful.

Like any professional field, the most skilful practitioners in property development are often the ones with the most experience, as well as the best networks.

However, don't underestimate the additional value that you can get from someone with a strong and clear vision of what's possible and the relationship-management ability to look after the other JV partners and effectively bring them along for the ride.

It might be harder to quantify the exact value of the property development skillset than it is to appreciate the value of the land or the finance, but the seamless management and completion of a project keeps costs down and maximises returns.

THE KEY SUCCESS FACTORS FOR A STRATEGIC JV

There are four key factors that go a long way to determining the success of a joint venture: agreement, alignment, development, and flexibility.

Here's a brief overview of what they mean and how they might impact on a project.

<u>Agreement</u>

From the outset, you should clearly define the timespan of the venture, performance norms, and governance processes. You'll also want a clear demarcation of who is responsible for what, an understanding of how the parties will communicate, and even how the venture will be wound up when the project has been completed.

<u>Alignment</u>

The value of alignment shouldn't be underestimated. Successful JVs are founded on shared objectives and the partners need to feel totally comfortable with each other's approaches and methods. Strategies and expectations around risk and reward must also be aligned as the whole idea is that all parties benefit from the arrangement.

<u>Development</u>

This refers to how the relationship develops during the course of the project. Because a JV is designed as both a strategic alliance and a mutually beneficial arrangement, it's vital to ensure that it does deliver benefits to all partners. Regular communication plays a big part in this, particularly given that the partners' individual circumstances are unlikely to be static for the entire course of the project.

<u>Flexibility</u>

All parties need to be aware of and sensitive to the differences in experience, understanding, input, and even interest in each aspect of the project and deal with any issues that arise in a way that is both flexible and appropriate to their specific circumstances.

CASE STUDY #2

We entered a joint venture with a landowner on a project to deliver a 34-apartment complex.

This landowner was able to provide an ideal block for a significant property development. There was no debt, which made financing the project a little easier, and the planning overlay of the area ensured that there were no restrictions that could cause compromises or delays.

We started with the commercial conversations around what each party was bringing to the project and how that would translate to shared risk and shared profits

While the landowner was definitely interested (invested, you might say) in what we were proposing, they felt comfortable that we had a shared value system and common objectives, so were happy for us to take full control of the project.

With this particular JV, we took care of the financing, project management, construction, reporting, marketing, and sales.

We were able to take this great opportunity and create a lot of value for the landowner that they wouldn't have got had they just sold the land to a developer.

A true win-win.

IDENTIFYING A GOOD JV PARTNER

Sometimes it's clear that an individual or company would be a good fit for you to join forces and resources with, especially if you can see that you have:

- A good alignment of beliefs and sensibilities;
- A commitment to a mutually beneficial relationship;
- Confidence in each other's capability.

FOUR THINGS YOU NEED TO GET RIGHT FOR A SUCCESSFUL JV

Even though there's a lot to consider before deciding that a joint venture is the right option, and then in finding the right JV partners, when it comes to execution – getting the job done – we can distil the key pillars into just four main objectives:

- Have a real clarity around the purpose of your JV;
- Ensure all of your processes are practical and effective;
- Put in place (and follow) rigorous tracking and reporting processes;
- Place a high value on effective people and relationship management.

THE MAIN CHALLENGES FOR JV PARTNERS

There are quite a few things that joint venturers might find challenging, particularly if they're inexperienced with JVs.

Unless all the partners have similar levels of experience and resources, ideally, one of the partners would lead the way – as long as the other partners are comfortable that they're all on the same page and working toward the same goal.

The major challenges facing JV partners include:

- Structuring the JV entity in accordance with the respective contributions;
- Deciding on an appropriate decision-making process;
- Ensuring that lines of communication and reporting are clear;
- Managing any issues that arise during the project;
- Maintaining tight control over timelines and budgets.

While these all apply to property development JVs, there are a number of conventions and practices that are tried and tested in this sector, so there is almost always a suitable 'template' that can make the whole venture more comfortable for all parties.

THE JOINT VENTURE LIFECYCLE

Regardless of the type of joint venture or its purpose, the lifecycle is almost always the same. One or another of the stages might take more or less time, or be more or less complex, but a JV will generally work like this:

1. Partner screening and due diligence
2. Structuring
3. Negotiation and agreement
4. Pre-launch planning
5. Project kick-off and bedding down processes
6. Project and partnership management
7. End of JV and separation

CONCLUSION

A joint venture is not only an attractive proposition but can make a lot of commercial sense to all parties.

By sharing resources and risks, timing cash flows and expenditure, and taking advantage of broader networks, a JV can result in reduced costs and greater profitability for a project.

In the property development space, a well-considered, properly structured, and skilfully executed joint venture can deliver results that none of the venturers could have achieved individually.

For further information about a property joint venture:

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