Appendix A: Joint ventures – general principles and the application of the approach in Lewisham

1. This briefing note outlines key points that describe the Joint Venture (JV) approach to developing new affordable housing in general, and how this approach compares to other models of housing development. It also provides detail on the Council's proposed JV development on Besson Street, including the rationale for using this approach and the latest progress in setting it up.

Joint ventures: an overview

2. Joint ventures represent one of a range of options that any landowner or developer could pursue when setting out to develop new homes (or other forms of development) on its land. This range of options includes, at its widest extents, the following:

    - Managing and delivering the development directly
      This approach requires the full cost of financing the development to be met by the Council, and for the Council to carry all of the risks in relation to cost over runs, construction management, changes in the wider economy and on-site health and safety management. These costs and risks are borne throughout the full extent of the development process.

      At the same time this approach would also expose the Council to all of the potential return and "up-side" that a development could deliver. As the Council would receive all of the profit the scheme delivers, if the scheme was more profitable than expected, all of that benefit would accrue to the Council.

      In summary this approach has the greatest risk to the Council, and the greatest potential return.

    - Selling land to a developer
      This approach is the opposite of that above – it has the least risk, and the level of financial return is fixed. In this approach the Council sells the land to a developer for a fixed return and then relies on Planning policies and the planning process to achieve the Council's strategic objectives for the place.

      A variation on this theme is a development agreement, where the Council sets out specific requirements on a piece of land that must be delivered, and then requires developers to bid on that basis. An example of this is the Campshill Road extra care development, where the Council sought an experienced partner which specialised in housing for older people to develop a new scheme of 54 homes, all of which had to be affordable. As a result the cash value of the land was reduced, and was replaced by the social value of having 54 new affordable homes.

3. The joint venture approach sits between these two approaches. It enables a degree of risk to be transferred to a partner, whilst also enabling the Council to

benefit from a portion of the development's profits. Depending on the structure of the JV, it may also provide the Council with some upfront cash receipts.

4. Importantly, the JV approach also allows the Council to maintain a suitable level of control over the use of the site and its continued alignment with the Council's housing strategy. This control is exercised informally through the selection of who the partner should be – and assuring that this partner shares the Council's vision and objectives. Control is also exercised more formally in the Council's participation as a voting member of the JV company set up to deliver the scheme.

5. Generally, JVs share the risk and reward on a 50/50 basis, and also share the voting and control rights 50/50.

Joint venture in Lewisham: Besson Street

6. Since early 2016 the Council has been pursuing the creation of a joint venture company to develop the Besson Street site in New Cross. This approach was agreed in principle at Mayor & Cabinet on 9 December 2015, and in detail at Mayor & Cabinet on 13 July 2016.

7. The strategic context for this development and proposed approach is twofold. First, the current financial environment for the Council means that it is targeting using its land to drive on-going revenue returns to fund services. Second, the Council's housing strategy includes objectives to attract high quality institutional private sector landlords into the borough, and if necessary to provide high quality private sector homes itself.

8. The proposed JV structure is equal partnership between Lewisham Council and a private sector partner, which is expected to be selected at Mayor & Cabinet on 6 December. As a result of having this 50% stake in the JV, and of setting the original design and development brief for the site, the Council is able to maintain an element of control of the use of the site - rather than leaving the decision about how to use the site to the market.

9. While it is not yet possible to announce who the partner will be, it is possible to set out in high-level terms the outcomes that the Council is likely to obtain from developing the site in this manner. These are set out below.

Housing and regeneration

10. From this perspective, the principle outcome of the project will be the delivery of a large number of new homes, including a new type of affordable housing tenure, and a wide range of ancillary place making benefits, as follows:

    - 232 new homes in total, all of which will be rented – none will be sold
    - 35% of these – 81 homes – will be let at London "living rent" levels which are set according to the local median income, and not the market. These will be aimed at lower income Lewisham residents who are in work and who are priced out of homeownership, but do not qualify for social housing

- A new, fully fitted out GP surgery for the New Cross Trust, in line with the original aspirations for the site to house a healthy-living development.
- A range of office and commercial spaces

11. In addition to these overall outcomes, the model that is being pursued enables other benefits to residents and the Council. The development model is known as “Build to Rent”, in which institutional funders (in this case the Council and its partner) develop a high quality scheme and then own it for the express purpose of renting it, rather than sell it at completion. This approach has the following benefits:
    - The company that builds the homes will own and be responsible for the management of the homes. This means that the initial design will factor in, in great detail, how the scheme will operate and how residents will live in it. It also means that there is a natural incentive to design a better building and outside spaces. These factors should all drive up the quality of the finished product.
    - The funding model is built on long term “slow” income, rather than a fast and more “speculative” return as is standard in most developments. This means that the incentive is on getting and keeping tenants, rather than selling at the highest price. It places a premium on tenant satisfaction as people will be free to move away if services are poor, and in turn this means that the services and quality renters can expect should be much higher than a more traditional letting of a converted property, for instance.
    - For the same reason, tenancy lengths will be much longer. There is no incentive to churn tenancies, instead steady income and keeping tenants in-situ work much better for the landlord.
    - As all of the development is rented, and the only variation between the tenures is the rent level, the development will be truly tenure-blind. There will be no poor doors, and no way of knowing whether one flat is let for living rent or market rent.
    - The landlord will be the JV company and not the Council. While tenants will be protected by the benefit of knowing they have a high quality landlord, it should be noted that this does mean that they will not have Council tenancies or be social housing tenants. This means, for instance, that they will not be able to exercise a right to buy their homes.

<u>Commercial and income generation</u>

12. The approach at Besson Street is to create a new joint venture company with a partner. The Council then “invests” its land into the JV company and secures matching investment from its partner. From that point forward the development is funded 50/50 between the partners, and the Council benefits from 50% ownership of the final development. There are three key benefits that accrue as a result of this arrangement.

    - First, the Council does not lose all control of the land, and instead it retains a 50% stake, but has not had to fund and finance the development itself.

- Second, and as a result, the Council stands to benefit from any value increases that follow from infrastructure or other investment in the area. In this case, for instance, it is expected that the Bakerloo Line will be extended into New Cross in due course, and because it has kept a 50% stake the Council will continue to benefit from any value increases that this new development brings.

- Finally, as a commercial company the JV will make an annual surplus. The Council will receive 50% of this surplus as a dividend, given that it owns 50% of the equity in the company. This income stream can help the Council to meet the financial and savings challenge it faces, by contributing to annual savings requirements. Indeed the budget savings papers on this agenda already include a saving that is expected to be generated from this approach.