trowers & hamlins

HOUSING DELIVERY PARTNERSHIPS

Removing barriers through collaboration

Foreword from Sir Edward Lister

Years of continued failure to deliver sufficient numbers of homes to meet demand has led to the housing crisis the country faces today. The housing market is broken, as the Government's Housing White Paper stated, and there is no single fix. Delivering more homes will require a range of products and approaches, flexibility, compromise and partnerships.

At the Homes and Communities Agency, we have been thinking hard about what we do. We have more money than ever in our history, but the big difference is that money must now be generally recyclable capital and so a return needs to be made.

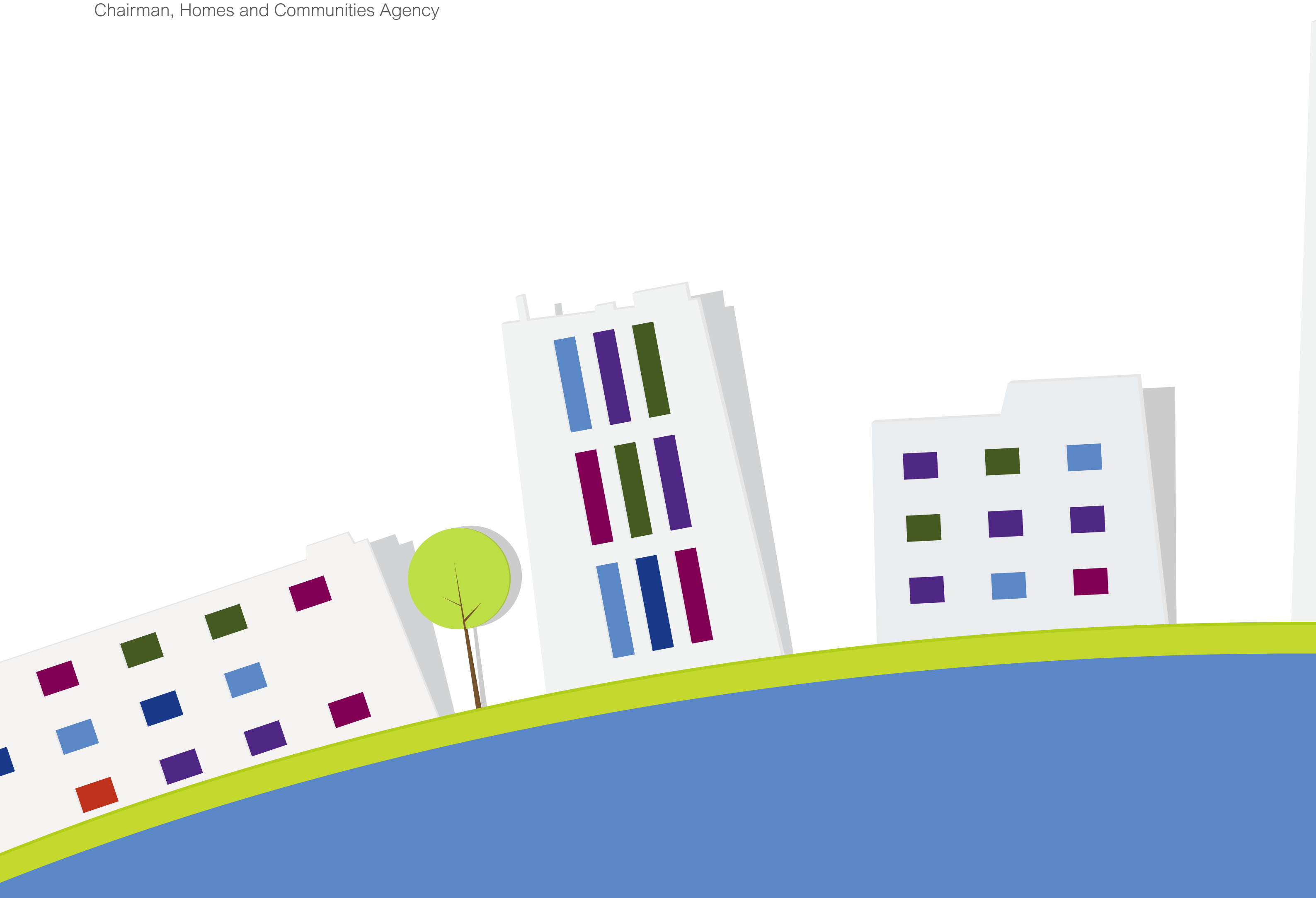
But we can take a long term view: the housing market needs disrupting and we will help anyone that wants to disrupt it in a positive way. If you can make a case and can provide net additionality, we will listen to you.

We are looking for enterprising partners – and willing partners. It will require leadership at the local level. Too many local authorities still do not have a local plan, but in parts of the country we are seeing a mood change. There is growing recognition in some local authorities that they need to be leaders – and more are. If we gravitate towards the willing and bypass the others then the number of those willing will increase.

One form of leadership we are seeing are the different kinds of partnerships between the private and public sector, which have a hugely important role to play in the delivering the homes we need. We want to see more of these coming forward around the country so learning from those that have been delivering successfully is critical.

Bringing the public and private sectors together, creating partnerships that deliver homes around the country and sharing skills, knowledge and learning in the process – it is that kind of willingness that the country needs.

Sir Edward Lister
Chairman, Homes and Communities Agency



Introduction from Trowers & Hamlins

Partnerships of all kinds are not easy things to get right. They take work and commitment, good will, flexibility and compromise. That is no less true of housing delivery partnerships.

Partnerships between the private sector, housing associations and public sector organisations with the aim of increasing the supply of new homes of all types are a vital part of the effort to tackle the housing crisis.

But establishing such partnerships can seem daunting and organisations that are considering embarking on the journey may decide instead on a different route. That is partly due to a lack of knowledge and a perception that housing delivery partnerships are time consuming and overly complex to establish.

In the interest of furthering the understanding of how housing delivery partnerships are put together – and how the partners can make a success of them – this report gathers together the experience of six different partnerships in Cornwall, Brighton, Sheffield and London.

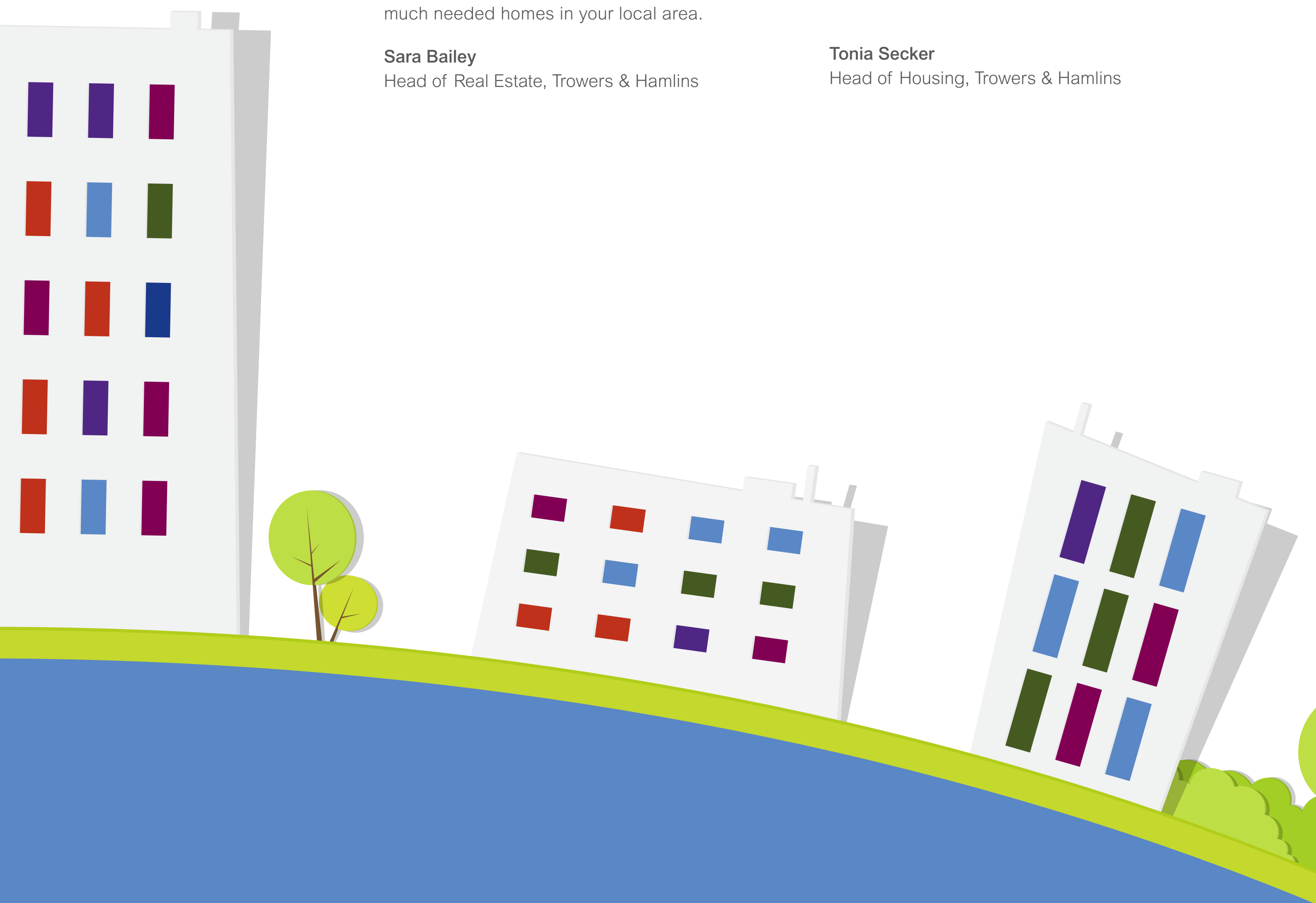
These partnerships are at various stages of their lifecycle and range from the delivery of a few hundred units to over a thousand, but common themes emerge in how the partners built strong partnerships that can overcome the unforeseen challenges that inevitably emerge.

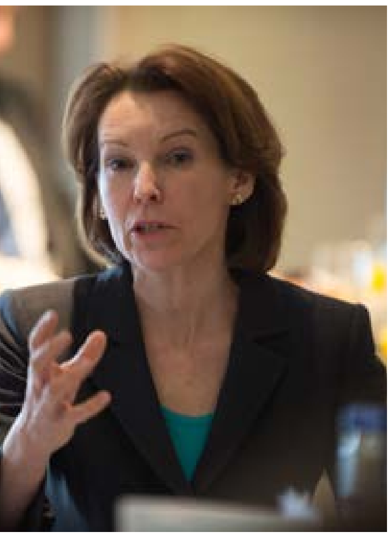
This report explores how partners have gone about building these strong relationships, gives a guide to the pitfalls partners might experience and how they can be avoided and describes the different kinds of structures that partners could adopt.

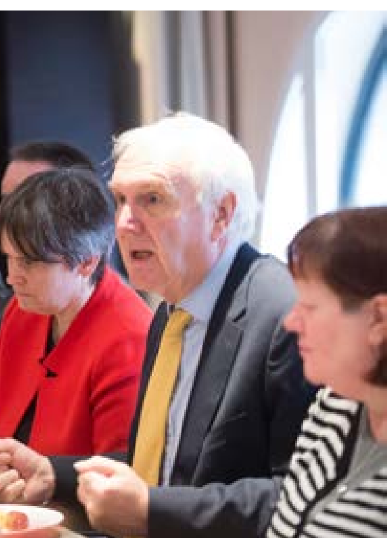
But most of all it gives those who are thinking of setting up a partnership to deliver homes a sense of the questions they need to be asking right from the outset. Only by asking the right questions will you come to the right answers and form an approach that is best suited to your circumstance and thereby delivering much needed homes in your local area.

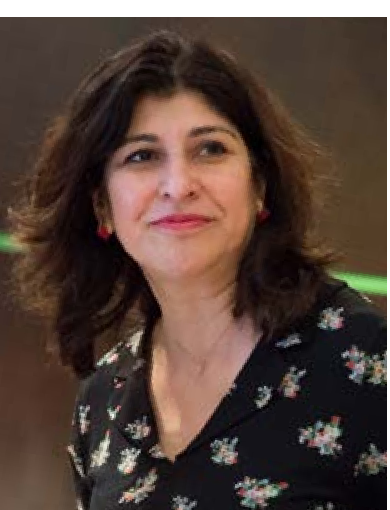
Sara Bailey
Head of Real Estate, Trowers & Hamlins

Tonia Secker
Head of Housing, Trowers & Hamlins









Roundtables

In March 2017, Towers & Hamlins invited a select group of high-level industry leaders to a roundtable opened by Sir Edward Lister to challenge why and to consider and share the benefits that partnerships (whether formal or informal) can offer.

At the RESI conference in September 2017 we held another roundtable to further explore some of the key themes we had found through working with those in the industry who have been closely involved with the delivery of housing delivery partnerships.

Both these events have helped develop our key themes and best practice to help those embarking on such projects in the future.

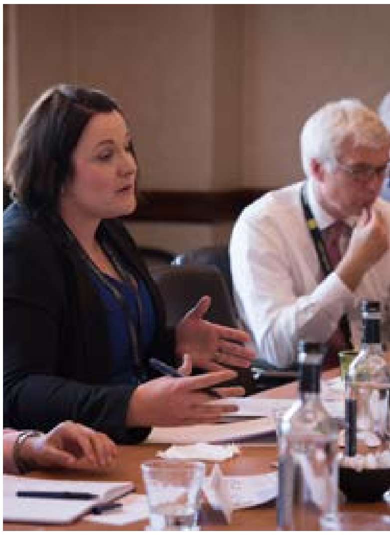
Breakfast roundtable – Thursday 02 March 2017

Financial Times	Claer Barrett, Editor FT Money (Chair)
GVA	Oliver Maury, Director – Development Consultancy
Brighton and Hove City Council	Tracy John, Associate Director – Housing
Delancey	Stafford Lancaster, Investment Director
Family Mosaic	Dick Mortimer, Director of Property Services
First Base	Elliot Lipton, Managing Director
Galliford Try	Clare Crawford, Business Development & Investment Director
Greater London Authority	Nick Taylor, Head of Area for North West London
Homes and Communities Agency	Sir Edward Lister, Chairman
Housing & Finance Institute	Natalie Elphicke, Chief Executive
The Hyde Group	David Gannicott, Group Director of Business Development
Legal & General	Pete Gladwell, Head of Public Sector Partnerships
LocatED	Lara Newman, Chief Executive
Plymouth Community Homes	John Clark, Chief Executive
Thames Valley Housing Association	Geeta Nanda, Chief Executive
Towers & Hamlins	Sara Bailey, Head of Real Estate
Towers & Hamlins	Tonia Secker, Partner
Towers & Hamlins	Amy Shaw, Partner
Towers & Hamlins	Rob Beiley, Partner
Walsall Housing Group	Gary Fulford, Chief Executive

> *"We gravitate towards the willing and if we continue to do that then the number of those willing will increase."*
>
> – Sir Edward Lister, Chairman, Homes and Communities Agency

“It’s important to recognise that people have different roles and particularly the role of the local authority in housing.”

– Natalie Elphicke (OBE), Chief Executive, Housing and Finance Institute



RESI Conference roundtable - Thursday 14 September 2017

Towers & Hamlins	Sara Bailey, Head of Real Estate (Chair)
Argent	Peter Freeman, Founder
Delancey	Lesley Chen Davison, Director of Banking and Treasury
GLA	Jamie Ratcliff, Assistant Director – Housing
Grainger Plc	Andrew Saunderson, Director of Investments
Legal & General Capital	James Lidgate, Director of Housing
Orbit Group	John Carleton, Executive Director Property Investment
Savills	Robert Grundy, Head of Housing
Stoke City Council	Christine Parker, Development Lead
Thames Valley Housing Association	Rita Akushie, Group Finance Director
Towers & Hamlins	Amy Shaw, Partner
Towers & Hamlins	Suzanne Benson, Partner
Urban Splash	Simon Gawthorpe, Managing Director

“Some people make the assumption that patient capital means ‘cheap capital’. There are different pots of capital at somewhere like L&G with different risk profiles for each. Someone invariably still needs to take some development risk though.”

– James Lidgate, Director of Housing, Legal & General Capital

Themes emerging

Choose the right form of partnership for the required outcomes

It is important that partners do not adopt a model of partnership simply because it is en vogue or more politically palatable. Partners must be clear about the objectives of the partnership and ensure that they adopt the right structure to deliver on them.

Choose a partner you share similar values and objectives with

It is vital that the organisations that form a partnership are compatible in terms of their values, ethos and overall objectives. This is particularly true when it comes to long-term regeneration schemes, where partners must both be prepared to forego short-term benefits in order to deliver the long-term ambitions of the scheme. A partnership between organisations that have a complementary vision and approach is more likely to succeed, when others may flounder.

Take time to establish the partnership to create firm foundations both legally and financially

Establishing a partnership can be a complex process, but it is essential that it can stand up to financial and legal scrutiny. This may mean the process of agreeing the form of the partnership takes longer than anticipated, but the investment will pay off over the longer term.

Build mutual trust and understanding, and get buy in from all stakeholders

A partnership cannot solely be founded on a legal agreement – it is also about relationships and building trust between the individuals and the entire organisations. Taking time at the outset to establish good relationships based on mutual understanding is vital if the partnership is to stand the test of time. Engaging stakeholders beyond the immediate partnership is also critical to ensure buy-in. You have to respect each others drivers.

Incentivise partners to achieve the desired outcomes

Aligning objectives at the outset is critical and can be reinforced by building incentives into the agreement to ensure partners work towards the desired outcomes. Incentives realising value as the partnership delivers on its objectives helps to keep the partners focused on the end game.

Share risk

When partners share the risk they also share the reward and are incentivised to deliver on the objectives. If the partnership is set up on a 50:50 basis then each partner has a mutual interest in delivering the best possible outcome in order to maximise the benefits.

Enshrine key parameters as well as flexibility in the partnerships agreement

Large-scale regeneration schemes take time – from conception, through delivery to completion can span several economic cycles, not to mention changes in local and national government. It is vital that there is a degree of flexibility built into the agreement to allow partners to respond to changes in circumstances. It is not possible to anticipate every eventuality and too rigid an approach will not facilitate the compromise that can be necessary to overcome obstacles along the way.

Maintain regular dialogue and deal with issues in a collaborative way

When obstacles are encountered, compromise is necessary and having an open discussion is vital. Facilitating communication between partners through regular dialogue helps establish a strong relationship and enables partners to have difficult conversations, when needed, in order to reach a solution. In reaching a solution it is vital that all partners understand that no one party has control, decisions are made through agreement. That can take time but it will foster trust and put the partnership on a firm footing.

Ensure all parties have an active role to play to their strengths

Ensuring the partners have a role to play is important; it demonstrates that all parties to the agreement are actively involved in delivery of the scheme, and the partnership is not dominated by one party. It enables those who are best placed in terms of skills and experience to take the lead on the aspect of the scheme that suits them best, giving them ownership and strengthening the overall partnership. It also facilitates learning and skill sharing between partners.

Ensure the end product is fit for purpose and tailored to the market and end user

Housing delivery partnerships are about building homes and those homes must be tailored to the market and fit for purpose for the end user. That means hitting the specific requirements, in terms of the product, price point and the detailing and finishing, for the market demographics. It is vital that the partnership does not lose sight of these fundamentals.

A lengthy and competitive procurement process will not always deliver the best partnership

Where formal procurement is required, it should be conducted with the end target at the forefront, rather than a process to be followed. There needs to be a focus on making this process as efficient as possible, with ease of access for bidders, and an 'eye' on the wider objectives and value for money over headline financial figures. Organisations find procurement a lengthy and resource-heavy process, which leaves many disheartened, and even for a successful party, with little desire to work collaboratively with their new partner. There are 'procurement light' models out there.

Drivers for taking a partnership approach

	Local authority	Housing association	Private developer	Investor
More homes	✓	✓	✓	
Speed of delivery through combined resources	✓	✓	✓	
New sites/land		✓	✓	
Access to public sector land		✓	✓	✓
Creation of employment opportunities in the community	✓			
Potential to drive other initiatives, e.g. foreign investment, digital hubs, regeneration	✓	✓		
Strategic relationships with public sector		✓	✓	✓
Risk sharing	✓	✓	✓	✓
Greater ability to deliver through combined resources	✓	✓	✓	✓
New income streams	✓	✓		✓
Diversifying investment portfolio				✓
Access to local authority sources of finance – grant, PWLB funding, other e.g. RTB receipts		✓	✓	✓

What are the key questions?

1. What is the key commercial incentive/driver for each party?
2. Is your participation short, medium or long term? How important is an early or easy 'exit'? Is liquidity a concern?
3. Are the partners coming at the opportunity as (i) owners (ii) developers (iii) investors (iv) other?
4. What level of risk is acceptable? Can you agree cross-collateralisation?
5. Is capital receipt, or long term revenue, a greater driver?
6. Is the partnership for strategic delivery or specific sites?

Key considerations

Foundations

Housing delivery partnerships (HDPs) are generally created with longevity in mind. If used to develop at any scale, they will also benefit from substantial investment from their partners (whether in the form of equity or loan notes as well as operational and administrative resource). In order to allow them to perform to best effect, to justify that investment and deliver a return for the partners, it is critical to ensure that the legal structure and contractual arrangements are fit for purpose and sufficiently flexible to adjust to market conditions. In the case of HDPs involving local authorities and public sector partners, consideration needs to be given to the statutory powers that its decision-making process has been properly followed so as to reduce the risk of legal challenge by means of judicial review.

Early thought needs to be given to the scope and duration of the venture, the obligations and commitment of individual participants as well as provisions covering the financing of the venture, the entitlement of individual participants to the profits of the venture, the tax treatment of those profits and, perhaps counter-intuitively, the exit strategy.

The resulting discussions will have their challenges as each partner will wish to achieve certain outcomes. The ability and preparedness of the partners to compromise, to trust and to move away from the "command and control" mindset which characterises many development arrangements will, even at the earliest stage of discussions, be an indicator of the likely later success of the venture.

Critical to the above, particularly in the context of corporate partnerships involving local authority participants, will be the ability of the local authority and its members to recognise and accept that:

- Their partner's drivers may be different from their own and that commercial return is likely to feature among them.
- The partnership vehicle will in all likelihood be established to provide not only housing to meet need but also a return on investment to its partners (including the local authority). Whilst such return to the authority will be available for use be it either for specific functions or to mitigate the effects of withdrawal of central government grant, the commercial disciplines and decisions necessary to generate this "profit for purpose", will be new and challenging for some members. To avoid later difficulties arising, it is important to ensure that members (current and future) are fully briefed on the purpose of the partnership and its activities.
- The partnership vehicle is not a subsidiary of the local authority nor subject to its unilateral control. It will be operating to a business plan, jointly agreed by its partners. The local authorities ability to influence its activities will be commensurate with its interest in the vehicle.
- The vehicle will be operating in the local housing market and will be subject to market fluctuations and corrections. In order to succeed over the long term, the partnership will need flexibility to refocus its business plan to address market movement, even if that may mean a short to medium term deviation from the partners' original plans for it.

Equally local authority/public sector participants need to accept that its partners will:

- Require a commercial return
- Require clear rates of delivery and not be fettered by unduly complex governance arrangements

A common fear expressed in respect of HDPs is that they are complicated and take too long to establish and deliver. This can certainly be true if the project is not well managed, the parties are unclear or overly ambitious in respect of their expectations for the partnership or they are unwilling to compromise on taken positions.

Any commercial arrangement, will or ought to require careful consideration of the issues for the participants. The time involved in getting those issues right at the start - even if that extends to a period of months - should be weighed against the potential returns which may be generated over a period of years. Once the key issues have been resolved, their documentation and implementation together with the creation of any new vehicle can (from a legal perspective) be reasonably swiftly achieved.

Focus

In order to achieve the right degree of focus in a partnership there needs to be a healthy level of both short and long term incentivisation. Incentives will vary according to the nature of the partners and the purpose of the partnership. Some can be "hardwired" into the agreement but others may result, directly or indirectly, from the success of the partnership's operations. Whilst "skin in the game" (particularly where given in substantial and equal measure between partners) is undoubtedly the greatest motivator to achievement of partnership outcomes, the following tools can be used to incentivise the partners to drive value and success:

- Proof of concept pilots, the success of which will act as gateways to further partnership working
- Where services are provided by the partners in a corporate model partnership, the use of project monitors independently to assess and report to the partnership on the reasonableness of the costs and value for money offered
- The use of open book and arm's length contracts where services are provided by partners to the partnership

Form

The "right" form will be driven by the specific nature and purpose of the partnership – if the partnership is intended to operate on its own account, to ring fence liability away from the participating bodies or to attract development finance or investment, or in certain cases, to secure off balance sheet treatment, then a corporate structure is likely to offer the most advantages.

Consideration should also be given to the appetite of the individual partners to actively participate in the management and operation of the partnership. For those wishing to invest in the project but to take a back seat role, then certain legal forms will operate better than for those wishing to have a more 'interventionist' role in the partnerships operations.

If the "partnership" is more reflective of individual organisations discharging a specific role or delivering a specific service rather than two organisations operating together as a single entity with a common purpose, then the contractual approach may be simpler and better suited to that form of arrangement.

Other "external" factors will also affect the selection of model – for example, local authorities and charitable housing associations will be influenced by their vires; the application (or not) of the procurement regime; loan covenants and, for local authorities, the consents regimes relating to land disposals and, perhaps most critically, the "end game" for the partnership and in particular whether it is to be capable of being "sold" into a secondary market.

Early clarity and honest dialogue about individual partner's motivations is key to the success of the relationship.

Flexibility

There is an inevitable tension between the need for the partnership agreement to give participants enough certainty about their rights and obligations to allow them to invest with confidence and the need for sufficient operational flexibility to allow the partnership sufficient agility to respond to changes in market conditions. At the outset of a relationship, the emphasis (particularly for public sector partners) tends to be at the former end of the spectrum.

In a contractual partnership, it is arguably harder to build in flexibility in any meaningful way to deal with unforseen events without recourse to further legal work – contractual obligations require certainty in order to be enforceable. Useful tools can include review mechanisms, delegation to "quasi" boards and consultation arrangements, but anything beyond that may be categorised as an "agreement to agree" which is generally unenforceable in law. In these cases, the strength of the relationship between the partners is critical to the ability of the partnership to respond to changed circumstances as changes to the underlying contractual terms will need to mutually agreed and documented.

Corporate partnerships can sometimes offer more flexibility – perhaps because of the absence of the "master/servant" relationship that underpins contractual arrangements, perhaps because there is a greater community of interest between the partners in ensuring the success of the venture. Models focussed at delivering agreed business plan outcomes with operational flexibility delegated to the executive team are perhaps more likely to secure the agility required to enable the partnership to deal with changed circumstances.

>> To read more about the different models turn to page 21.

A VIEW FROM CITY HALL

Jamie Ratcliff, Greater London Authority, Assistant Director of Policy, Programme and Services

Sadiq Khan's number one priority as Mayor of London has been to tackle the housing crisis in the capital – and as an assistant director in the GLA with responsibility for housing, Jamie Ratcliff is very much at the sharp end of delivering on that objective. Jamie has for over ten years been working at a senior level in housing development, having worked at the Homes and Communities Agency, in local government and for a large UK bank. This has given him broad experience in housing supply, affordable housing delivery, management standards in the private rented sector, rough sleeping services and the environmental retrofit of London's homes – and lends him a unique insight into how public and private partners can work together to deliver homes.

What advice would you give to councils or housing associations considering working with private sector partners to deliver homes?

I think the most important thing is to be very clear about what you are doing and why you are doing it and then allow form to follow function. The drivers can be numerous including delivering an ongoing revenue stream, retaining control over a place, driving housing delivery at pace, delivering specific tenures or types of home and increasing levels of genuinely affordable homes. Many of these can be secured without needing to go down a formal joint venture route and a joint venture route won't necessarily deliver a different outcome for a place.

How so?

It comes back to the drivers again but if a council or a housing association sets up a joint venture, for a development site that will be led by market sales, they are unlikely to operate very differently from a private developer acting alone. Tenure diversity, including many more genuinely affordable homes is arguably a more important factor in building more homes than diversity in the developer base. It's clear we can't simply rely on the speculative housebuilder to massively increase the number of homes that London is building; we need a broader range of business models.

So it should be about finding ways to do things differently and add value?

Yes, in order to build more homes in London we need different models. That means thinking about different ways of working. We need different tenures and different risk appetites; we need more build to rent, which can be delivered faster on large schemes and is probably less vulnerable to property market cycles; we need more affordable housing and more housing in lower value parts of London. Housing associations and councils may be able to take a different risk view to the private sector; they can take a longer term view of what they can do if they can't sell immediately as they've got the ability to hold onto homes and that's potentially incredibly valuable. There are also ways for the public sector to get involved in a muscular way in identifying and assembling land opportunities, that don't necessarily need to translate into different delivery models in development.

AN INVESTOR'S VIEW

Alex Greaves, M&G Real Estate Services Head of Residential Investment

As the Head of Residential Investment at M&G Real Estate, Alex Greaves manages the M&G UK Residential Property Fund, an open-ended specialist property fund that has invested over £536 million in the UK private rented sector since 2013. Alex has over 15 years' experience in the residential sector and is vice-chair of the British Property Federation's Residential Committee. He has overseen the growth of M&G's UK Residential Property Fund from infancy, built the team, secured framework agreements with two housebuilders, and financed the construction of 1,703 homes. This gives him a unique insight into the residential market.

As an investor, what is most important to you when it comes to a housing delivery partnership?

For us the critical thing is the end product – we start with that and work backwards. With so many different parties in the sector now pitching at different parts of the market with different price points, different qualities, different demographics and different positions on the risk curve, we need a deep understanding of the end product, what our offer will be and whether it will suit the users.

So what do you look at specifically?

Demographics – who are we targeting and are we hitting the requirements for that market in terms of product and finish? We then carefully consider long-term maintenance, management and operating costs as that will have an impact on pricing. We examine the technological aspects of each building and ask ourselves how we need to ensure it is future proofed. The end product is always front of mind.

And what about the partnership itself?

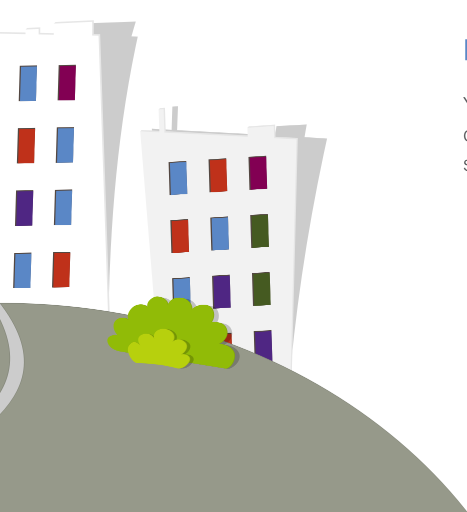
Our main consideration has to be the skill set and the covenant strength of the individual partners we work with and how their interests align to us as an investor. Financial strength is a factor alongside what they represent as a firm. We look to work with companies which share a similar ethos to M&G Real Estate and are able to deliver excellence in all areas.

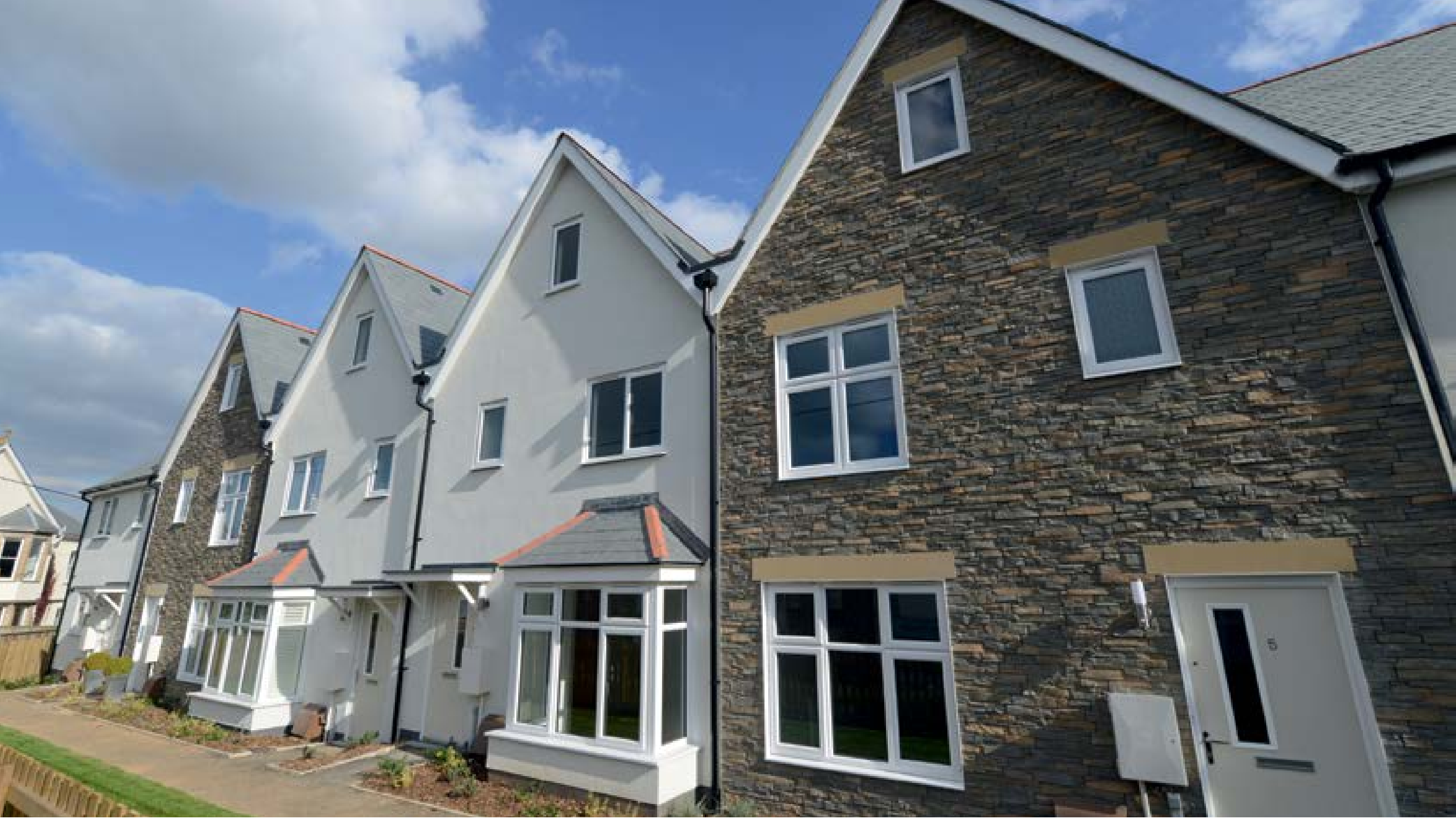
Is the structure of the partnership important?

Yes – covenant strength is extremely important. Naturally my preference would be for a partnership with mutually reinforcing interests but if the appropriate covenant strength is in question then there is no scope to proceed. Product, skillset, covenant, experience, track record and reputation are all absolutely necessary.

Do you have any advice for prospective partners?

Yes. First, understand your consumer, the type of product they want and make sure the contractual obligations create an alignment of interests. Secondly and equally importantly, only prospective partners with the financial strength to stand up to the scrutiny of an institution such as ours are likely to be successful.





Homes for Cornwall

Key facts

Cornwall Council, Galliford Try Partnerships and DCH

400 units across 11 sites

Tenure – a mix including open market private sale and affordable rent

Established in 2013, Homes for Cornwall is a partnership between Cornwall Council, leading regeneration specialist Galliford Try Partnerships and leading housing provider DCH. Originally known as the Cornwall Land Initiative, the partnership was established to develop homes across a portfolio of 11 council-owned sites across Cornwall.

"The construction industry plays a critical role in delivering homes in Cornwall. When the financial downturn hit, there was universal cause for concern" explains John Betty, Cornwall Council's Strategic Director for Economic Growth and Development. "Cornwall Council has a significant amount of consented and developable land, so we packaged a portfolio of sites across the county to kick-start housebuilding and provide much-needed affordable housing. Our priority was growth and a receipt on the land – if we make money, we can reinvest this to buy more land then create more housing. Our priorities for the partnership are quality of development and land receipt and benefit, as well as employment, where we've seen success through generating additional apprenticeship places. Our approach means we can stimulate industry, provide local housing and generate employment – the partnership benefits are significant."

"Cornwall Council were looking for a partner to build homes on their land, both open market and affordable," says Marc Thompson, Head of Strategy and Projects at Galliford Try Partnerships. "The model was Galliford Try Partnerships contracted directly with the council and then we set up a 50:50 JV with DCH beneath that to deliver the homes, with the council taking land receipts to invest in affordable housing on future sites."

As the landowner, the council's role is to identify sites owned by the council and support them through planning. Galliford Try Partnerships and DCH secure planning permission for the site and construct the homes and DCH works with Galliford Try Partnerships on the sales side and buys the affordable homes from the JV.

A distinctive feature of the programme is the varied nature of the sites, ranging from relatively straight forward greenfield sites of around 100 homes to very challenging brownfield sites that had previously thwarted development in the past. "Taking a portfolio approach has helped unlock these sites – it is very sensible as it means viable sites can cross subsidise the less viable sites," says Thompson.

“Our approach means we can stimulate industry, provide local housing and generate employment – the partnership benefits are significant.”

– John Betty, Strategic Director for Economic Growth and Development, Cornwall Council

To date the partnership has completed two schemes, two more schemes are half way through construction and another is in the early stages, two have secured planning and more sites are in pre-planning. The ability to work flexibly and creatively with some of the more difficult sites means the original target of delivering 315 homes across the portfolio has now been increased to over 400, with homes across a mix of tenures including open market private sale, shared ownership and affordable rent.

Shelly Fowler, Senior Land Manager at DCH, says the success of the partnership has been down to a genuinely collaborative approach. “It’s about keeping the dialogue going; any key issues are addressed between the parties,” she says. “You must agree parameters at the outset but when you are working with a portfolio and whilst there are also complex legal mechanisms to operate within, it’s important to allow enough flexibility to adapt when necessary, be innovative and to work together and come up with solutions. This approach has meant that whilst the portfolio includes a number of very complex sites with difficulties beyond those known at the outset of the project we have managed to work together to progress and are producing more homes than originally envisaged, including more affordable homes.”

Each partner of Homes for Cornwall brings important strengths, skills and resource to the project. DCH has extensive experience in developing homes with strong joint venture partners across the region. Currently DCH are working with Galliford Try Partnerships on a training academy based at their Shortlanesend development site near Truro which not only helps to provide training opportunities to people, it also helps to address resource issues in the industry which particularly impact some parts of the region.

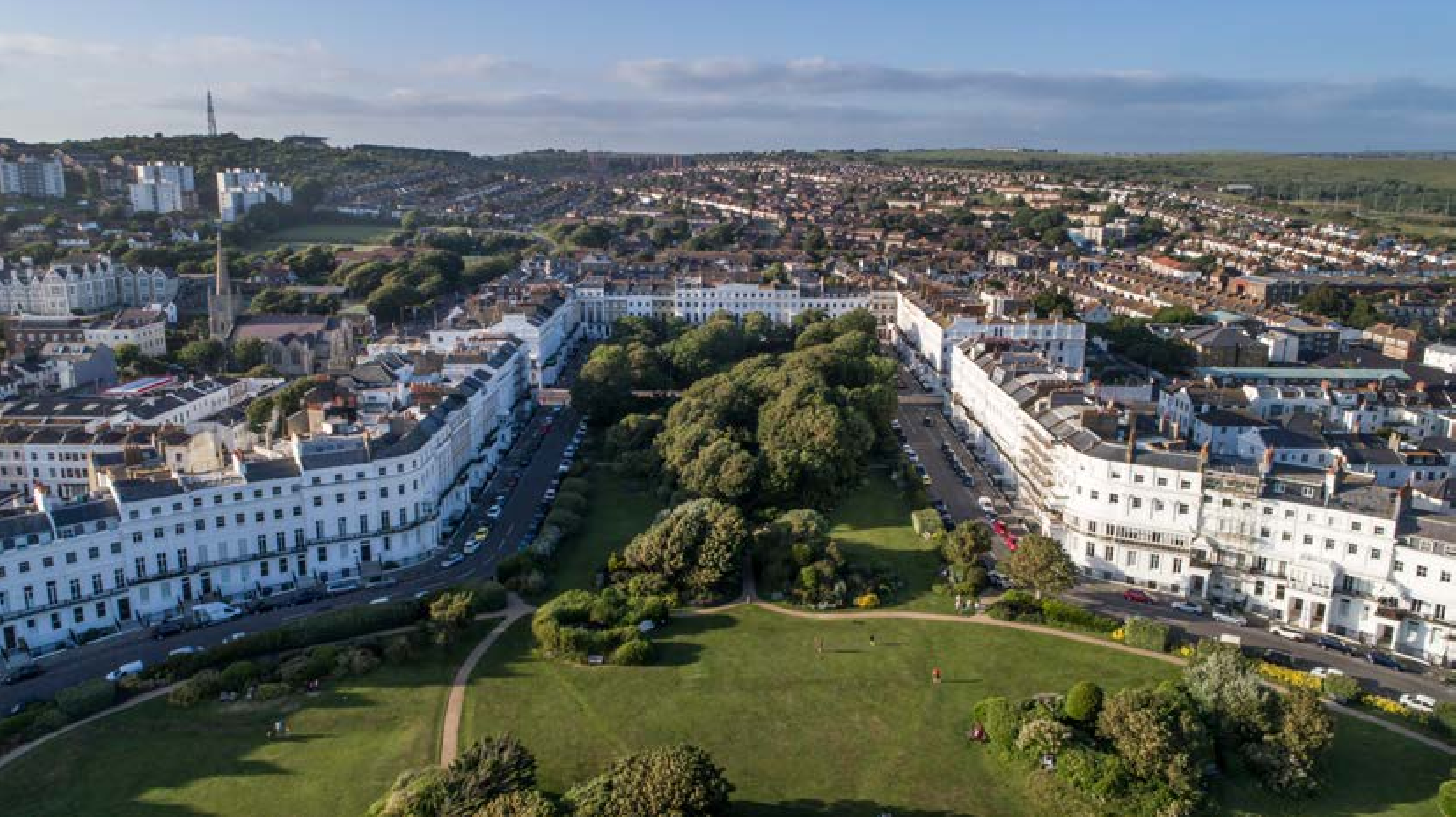
Thompson says building trust between the partners right from the outset was fundamental. “This was a new way of working for all partners so it was a learning experience for all. It was a case of building those strong relationships from day one. There were a lot of meetings at the outset and that was about building trust and understanding that we all had the same aim – to secure planning on the sites and deliver as many high quality and much-needed new homes as we could.”

Fowler says the key to forming a successful partnership is ensuring you are very clear at the outset about what you want to achieve. “But on moving forward you also have to be prepared to be flexible and have those difficult conversations when things need to change,” she adds. “Building a strong relationship of mutual trust is important to allow that to happen.”

John Betty, adds “This is one of a number of initiatives that Cornwall Council is developing to both deliver the local plan and to directly deliver. This initiative has been extremely successful and we wish to continue the programme alongside our direct delivery of 1,000 units and our direct investment approach on stalled sites. In Cornwall we are significantly investing to ensure delivery as housing provision is one of our top priorities.”

“It’s about keeping the dialogue going; any key issues are addressed between the parties.”

– Shelly Fowler, Senior Land Manager, DCH



Homes for Brighton and Hove

Key facts

Brighton and Hove City Council and Hyde Housing Association

Initially 1,000 homes

Tenure – shared ownership and living rent. Earmarked for local people, with rents linked to the national living wage

Brighton and Hove City Council and Hyde Housing Association put the finishing touches to a joint venture partnership to build 1,000 affordable homes for the city towards the end of 2016. The partnership is expected to be up and running once contracts are signed in November 2017, with the first homes completing from 2020 onwards.

The pioneering partnership will see the council and the housing association work together to develop 500 homes for shared ownership and 500 homes for 'living' rent for people who are in work but on low incomes. The homes will all be earmarked for local people, with rents linked to the national living wage, making the homes more affordable than under the government's model that sets affordable rents at 80% of market rates.

The 50:50 joint venture took 18 months to agree and around two years to close the deal as the council and Hyde worked through the detail of the financial model and won buy-in from the three main political parties that hold sway in the council, which is currently led by a Labour minority administration.

"We first had to make sure the financial model stacked up and was robust and could stand up to legal challenge, should that appear," says Geoff Raw, Brighton and Hove City Council Chief Executive. "Then it was about getting local politicians comfortable with the idea and getting a comprehensive understanding from all three main political groups that it could help meet the city's housing needs."

Raw says the partnership with Hyde made sense as the council needs a partner that understands the supply chain, has a strong development track record in the city and can bring forward sites. "We want to scale up our delivery of homes and Hyde has a good presence in the city, a good trusted track record and they demonstrated some real innovation in their thinking about how we can crack some of the big problems about improving supply in the city. Ultimately setting up the partnership with Hyde was considered to be the right thing to do for the council, and the city."

Tom Shaw, Hyde Housing Development Director (South), says convincing the council of the merits of the model was relatively straight forward as the two partners' objectives are aligned: both want to increase the delivery of affordable homes in the area. It was the politics and the tri-partite committee approval process that added time.

> *"It's important that both partners have an active role in it otherwise it begins to feel and look like less of a partnership."*
>
> – Tom Shaw, Development Director (South), Hyde Housing

"The leader and key politicians understood it and grasped it quite quickly and said let's get on with it," explains Shaw. "But under the model the council is not procuring anything so didn't need to go through formal procurement and that raised questions and increased scrutiny and we had to go through a process of convincing all councillors that Hyde was a good partner."

Building that trust and understanding was a crucial part of the process, says Shaw, particularly around the nature of how a partnership works. "There were some challenges around getting the council to understand that a joint venture is a partnership – the council wanted control, but that's not how a partnership works; you reach agreement around a table rather than one party having control. But that is now fully understood."

Within the partnership, Hyde is providing development management services and will procure the delivery of the homes and the council is providing corporate and financial services, as well as putting land into partnership. "It's important that both partners have an active role in it otherwise it begins to feel and look like less of a partnership. The council's finance people are really good and it's proven to be a wise decision." says Shaw.

So having gone through the long process of agreeing the partnership, do the partners have any advice for others starting out on the journey? "It's critical that you do the groundwork to make sure your financial model and business plan is financially and legally robust, putting that work in is really important" says Raw. "And you need to try and understand the organisations involved and their cultures and what is driving them so you can come together in a strong partnership that will withstand the test of time."

Shaw adds that it's also important to be realistic about the time it may take to reach an agreement. "You've got to go into it with your eyes open in terms of the amount of time it will take – you need to get clear parameters agreed from the outset about what the actual approval process will be and clear milestones for that," he says. "The other thing is making sure objectives are fully aligned, and are genuinely shared and to make sure everything is as crystal clear as it can be – the more clarity you have the less ambiguity there is and the less risk there is that it may not actually go ahead."

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>
> – Geoff Raw, Chief Executive, Brighton and Hove City Council

Sheffield Housing Company

Key facts

Sheffield City Council, Keepmoat and Great Places Housing Group

2,300 homes aim by end of partnership

Tenure – open market sale, shared ownership and affordable rent

Sheffield Housing Company (SHC) is the largest developer of new homes in Sheffield right now and will be for the foreseeable future. Established in 2011, the company is a 50:50 joint venture between Sheffield City Council and a consortium comprising Keepmoat and Great Places Housing Group and is set up to deliver around 2,000 homes across 22 council-owned brownfield sites in the City.

Construction of the first schemes got underway in 2012 and the partnership has now completed more than 370 homes. Unlike many housing delivery partnerships, the homes are largely for open market sale – this is because a key objective of the company is to regenerate the more tired areas of the city.

“We are working with a whole range of different sites – some are borderline housing market failure areas and some would be completely unviable if you went out to the open market for a developer” says John Clephan, SHC Project Director, who worked for the council before the company was established. “So the purpose of the partnership is to turn around these areas; at the time the partnership was conceived, which is 10 years ago now, these neighbourhoods were predominantly areas of social rented housing, so the aim is to get different housing mix in there and make these areas more desirable places to live and less reliant on the public sector.”

“The council’s regeneration aims aligned well with Keepmoat’s approach”, says Ian Hoad, Operations Director for Keepmoat in Yorkshire. “We are largely a brownfield regeneration specialist – 95% of Keepmoat’s schemes across the country are on brownfield sites and our product is predominantly aimed to first-time buyers, so we were a perfect fit really,” he explains.

“By adopting a portfolio approach, the more viable sites can help support those that would otherwise be unviable,” adds Hoad, “Allowing the partnership to deliver on its wider regeneration objectives.” Nevertheless, viability has been one of the key challenges the partnership has had to overcome.

“The first phase of the scheme encountered surprisingly low valuations,” says Clephan. “That was about the perception of the neighbourhoods – it demonstrated how important it is to get the mortgage lenders on board and the valuers understanding what we’re trying to achieve.”

"The council's regeneration aims aligned well with Keepmoat's approach."

– Ian Hoad, Operations Director, Keepmoat

To resolve the viability issues, the partners agreed to value engineer the schemes, coming up with different solutions and different designs. "We just had to get everyone around the table and everyone had to give a bit on what they wanted, so that we could get onsite," says Hoad. "It was a real team effort. We've only got to the position we are now by everyone working together."

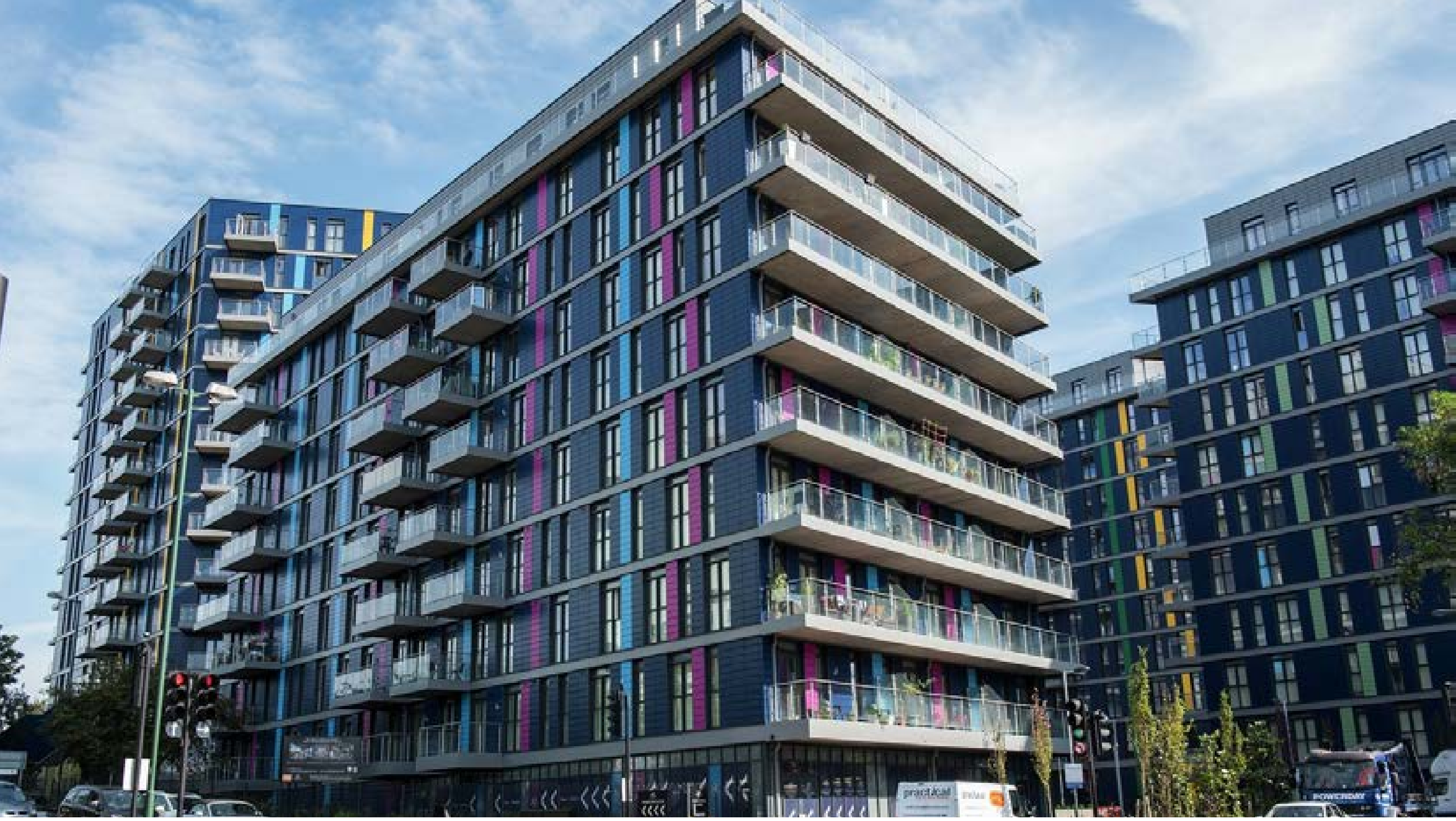
The commitment to overcome those kinds of bumps in the road is critical to the success of such partnerships – and that comes from ensuring objectives are aligned at the outset, says Clephan. "The only way we've been able to carry on is for all the partners, to be willing to forgo some short term benefits. From the outset the council saw, in Keepmoat and Great Places, that they were in it for the duration. That's so important. If you know you've got a partner that is looking to the end of 15 years rather than what is going to come their way in the first year then you're more likely to have a partnership that is going to survive the test of time. Over the first five years that commitment has probably been tested three or four times but we've always come through it."

Part of that is ensuring the partnership is put on a firm legal footing, adds Hoad. "The partnership took two years of procurement to form, which is probably longer than it should have, but we've come out the back of it with some very well thought through legal agreements. Everyone is incentivised to get homes up and sold – and if that happens, then the areas will start to change, the financial returns for all partners improve, and the council gets the wider regeneration of these areas. So if there are any issues preventing homes from being built and sold, then that is a problem for all of the partners that needs to be sorted."

And properly funding that early work of the partnership is vital. "If you are going to enter into a partnership of this kind, you have to ensure it is properly resourced from the outset," explains Clephan. "The council put a pot of cash up front and funded a dedicated team to drive through the procurement and that was really important, rather than doing it on the cheap. That makes a big difference."

"The only way we've been able to carry on is for all the partners, to be willing to forgo some short term benefits."

– John Clephan, Project Director, Sheffield Housing Company



243 Ealing Road, Brent, London

Key facts

Network Homes and Hill

441 apartments in seven towers

Tenure – shared ownership, affordable rent and private sale

When bringing two organisations together to deliver a project, building trust and strong relationships is critical at the outset. But how can this be done? For Vicky Savage, Executive Director of Development at Network Homes, there is no substitute for face to face workshops.

“Having a really honest conversation right at the outset about aims and objectives is vital. You cannot dismiss the importance of this work. You have to put the work in through early workshops and making sure you get to know each other and the organisations’ drivers.”

Savage says this process was particularly beneficial on Network Homes’ joint venture with Hill in Brent. The 243 Ealing Road project, which is now complete, kick-started the wider £520 million regeneration of Alperton Gateway. The £110 million development comprised 441 high quality, mixed tenure apartments in seven towers, plus over 13,000 sq ft of commercial space, and was delivered on a complex site next to a canal.

Savage says the two partners put a lot of time into building the relationship at the beginning of the joint venture. “That meant if there were ever difficult discussions to be made I could pick up the phone to senior staff at Hill and we could get it sorted,” she says.

“My advice to any partners is to start slow finish fast; spend time doing workshops, understanding the company you are dealing with, understanding who has the power and who has the influence in that company, and who are the right people to have in the room,” she says.

“And have really clear aims at the start of the project. We knew we wanted to do placemaking, and we wanted to do superb design so we had to state that on day one as there was no point someone coming in who wanted to stack them up high and sell them cheap. That wouldn’t have been a shared aim; so spending time in those workshops creating a vision, finding out about how the company works, who are the key individuals and the key decision makers is really important.”

"You have to put the work in through early workshops and making sure you get to know each other and the organisations' drivers."

– Vicky Savage, Executive Director of Development, Network Homes

Tony Parker, Finance Director at Hill concurs, "Fortunately we already had a good working relationship with Network Homes, having been contractor on previous affordable housing schemes. At that time 243 Ealing Road was the first major London based apartment partnership scheme for Hill and gave us the amazing opportunity to create a landmark regeneration scheme. As we provide construction services within our skill set we were able to maintain a tight control over quality and delivery, alongside the Network Homes team. We were committed to doing whatever it took to maximise customer satisfaction and also delivered 18 months earlier than expected."

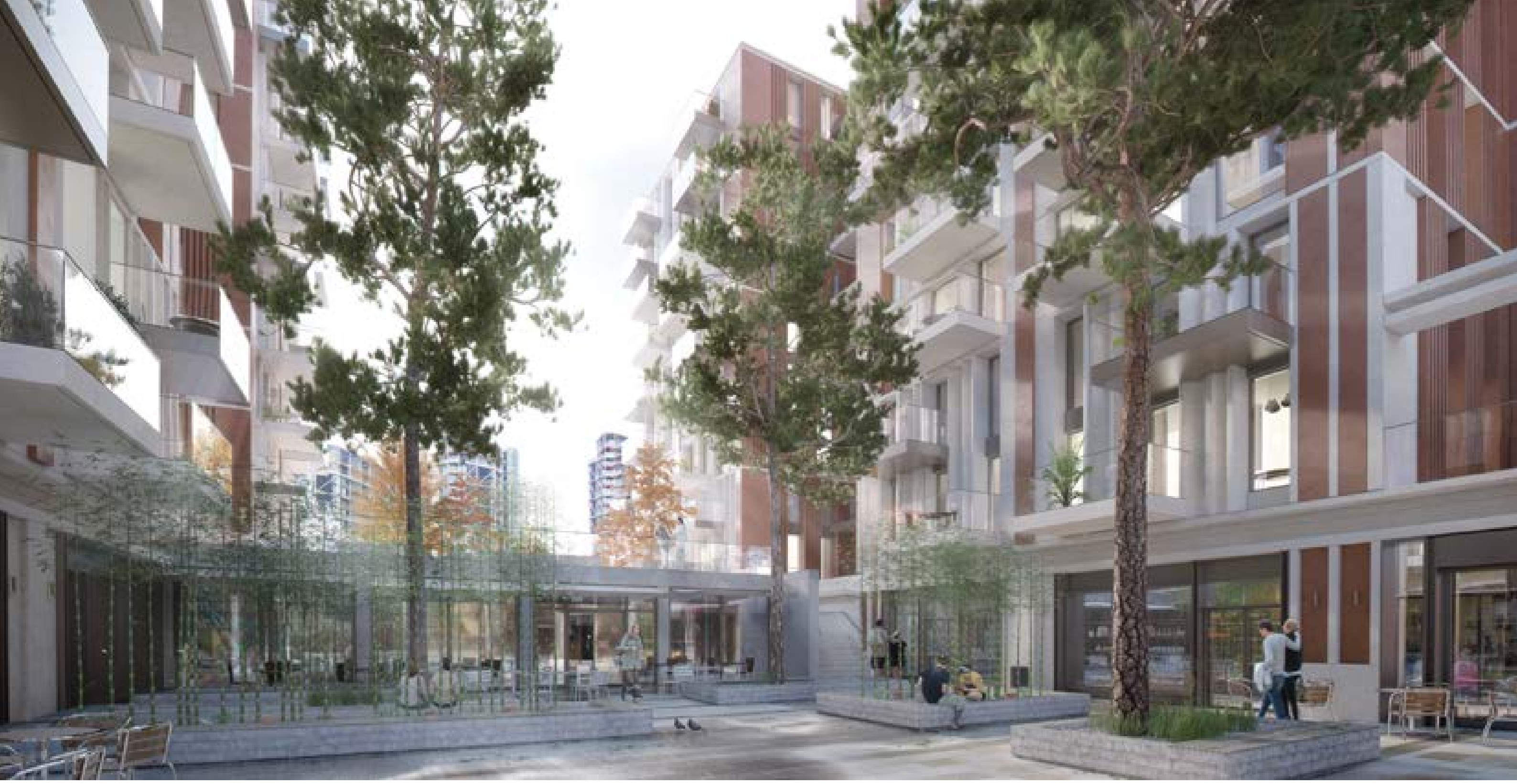
Savage says setting the partnership up as a 50:50 joint venture is also important. "I would advise anyone going into a partnership that you have got to be 50:50. If you are a housing association you have got to have a voice and if you are less than 50:50 you are in a weaker position. People have to have the same amount of skin in the game."

She adds that partners need to bring different skills to the table and recognise and acknowledge those skills. "In setting up a 50:50 partnership, different expertise is really important – everyone has got to bring something different to the party otherwise there's no point. You learn a great deal and you spread your risk."

"But ultimately it's about the willingness of people to come together and to see that there's mutual benefit in doing so; it's about two willing partners coming together with shared aims."

"We were committed to doing whatever it took to maximise customer satisfaction."

– Tony Parker, Finance Director, Hill



Ponton Road, Nine Elms, Battersea, London

Key facts

L&Q and Bellway

357 homes

Tenure - private sale and affordable

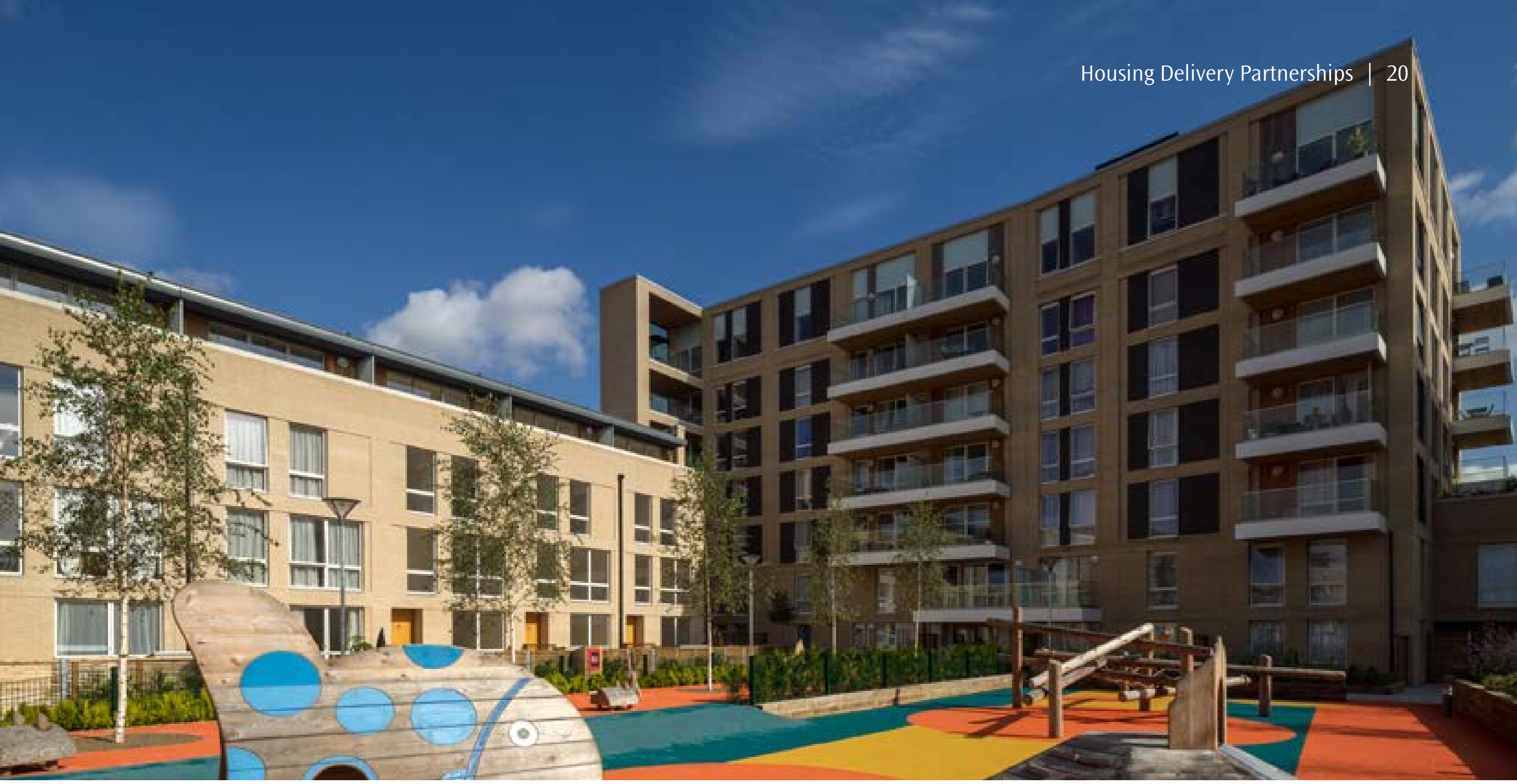
Partnerships between housing associations and housebuilders are increasingly commonplace. Craig Luttman, L&Q Development Director explains “Whenever we do a joint venture partnership we look at it from a perspective of everyone being aligned, in terms of their motivations and risk and reward. If you have a misalignment in partners or in appetite, then when things go wrong fractures can appear very, very quickly.”

Structuring the deal at the outset to balance interests is therefore essential, says Luttman. “We ordinarily structure a deal on a 50:50 basis, which keeps everyone motivated. If we both know we’re putting 50p in the pound each, then we know we will both benefit from what we’re building, so then we’re both going to do the best job we can. A 50:50 approach goes a long way to making people keen and doing things the right way.”

However, aligning interests is not the only vital ingredient in ensuring the success of a partnership: other factors are also important, like the reputation and financial strength of a partner, adds Luttman. “It’s important that our partner is of standing – that they have a good reputation; and alongside that of course is solvency, which is vital. And then it’s about making sure the structure itself is set up so it doesn’t benefit one party more than another.”

And what about dividing up the workload? Luttman says it depends on the skillsets of the partners. In the case of the 357-home Ponton Road scheme that L&Q is delivering in a joint venture with Bellway in London’s Nine Elms, the joint venture company is owned by Bellway and L&Q as an LLP, which then appointed Bellway to carry out the construction and the subsequent sales and marketing. “In the case of Ponton Road, it made most commercial sense for the LLP to appoint Bellway for construction, development management and sales. But in other cases, there’s more of a debate about who does which roles and services. L&Q has fulfilled the construction role, we’ve also fulfilled the project management role and in some cases the sales and marketing role. In the case of Barking Riverside, L&Q is also undertaking the role of master developer, enabler and infrastructure delivery. It just depends on what is the best fit really.”

And when you have found a partner that fits, ensuring the structure aligns interests is critical. “That’s my one piece of simple advice really,” says Luttman. “Intentions and motivations have to be aligned – you can’t have one partner with more of an interest than the other.”



Hallsville Quarter, Canning Town, London

Key facts

London Borough of Newham, Linkcity and associated project partners

1,130 homes

Tenure – sale, shared ownership and rent at affordable prices

The challenges of delivering a new town centre development are myriad, not least the time it takes. The plans for the £600 million Hallsville Quarter scheme to redevelop Canning Town were first conceived in 2008 and four years later Newham Council agreed a development partner agreement with Linkcity (known then as Bouygues Development). The first phase of the five phase scheme, which comprises 179 residential units, has now been completed, and phase 2 is close to completion. But the overall scheme, which will eventually comprise 1,130 homes, 30,000 sq m of commercial retail and leisure space, and a new high street, won't complete until half way through the next decade.

"That's the big challenge," says Nicolas Guerin, Managing Director of Linkcity. "The economy goes through ups and downs and you need to adjust over that time so building in some flexibility is really important." Guerin says the time taken negotiating the development agreement – nearly four years – was important and established the strong foundations needed to ensure the success of the scheme. "That is important so you have a firm legal footing – but you can't anticipate everything that will happen so you must also have flexibility."

Yvonne Shaw, London Borough of Newham Regeneration Manager, agrees. "The negotiations were about setting the scene and providing a foundation right at the beginning – it was about having a development agreement that is comprehensive but at the same time is not rigid," she says. "When you are in something for the long haul you need a partner you can trust, who you can be honest with about issues that come up and who shares your objectives and aims."

Dealing with issues as they come up in a collaborative way is crucial, says Guerin. "It is all about dialogue. This is not a situation where we have signed a development agreement and go off and do the scheme – we meet with the council every two weeks and talk through the issues. We are collaborative all the way through and that is the approach you must take on a long term scheme like this."

Under the development agreement, Linkcity agrees a land deal with the council, the landowner, ahead of each phase of the development based on current market valuations, rather than at the outset of the scheme, an 'open book' approach that has strengthened the partnership, says Guerin. "We work with an honest estimate of land value, and then work with them on selecting the best partners; the best investors, the best architects – we want to create a great place and build the regeneration of the wider area – so it's about having that dialogue and open book approach."

Shaw agrees that collaboration is critical. "If you are going to go into something like this you must adopt a non-adversarial approach, you must choose a partner you can work constructively with and you must form an agreement that is comprehensive but allows for flexibility as issues will always arise over time," she says.

The different models

HDPs can take many forms along a scale. From an alliance, or agreement to cooperate, formal frameworks and contractual joint ventures, to fully fledged separate corporate vehicles. All have a role to play in ensuring the supply of new homes.

The choice of delivery model should be closely linked to the parties' objectives: a partnership does not necessarily mean a corporate joint venture, parties can often achieve their aims with a less formal framework.

We have rehearsed some of the most common structures.

Co-operation alliance/framework

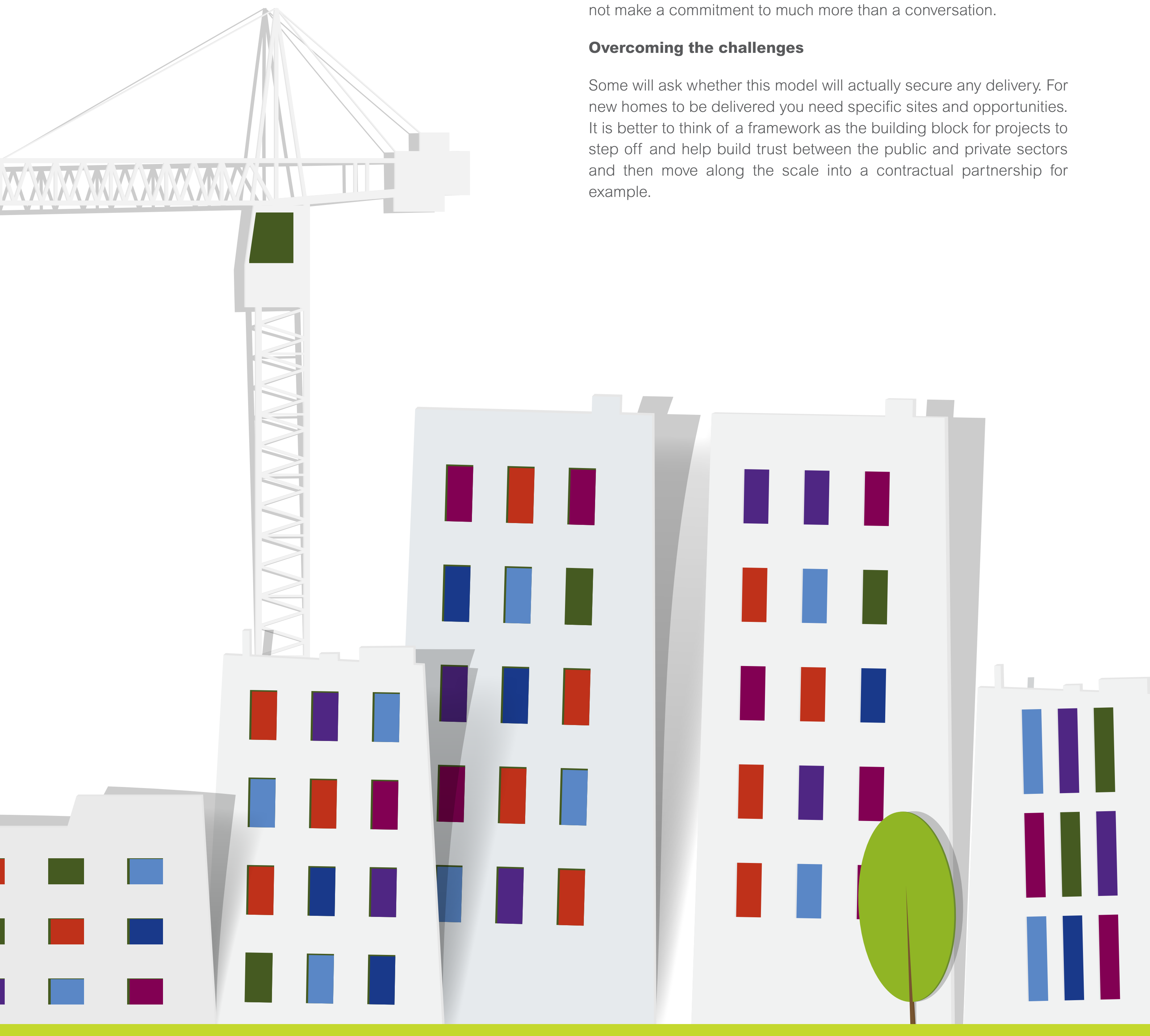
This could be nothing more than a statement of intent, demonstrating willingness and commitment to working together. They are usually documented using relatively short contracts, setting out ambitions and commitments which can vary, for example, from a simple obligation to look at opportunities together or to options to aquire land as and when sites come forward.

Benefits

These can be helpful for market messaging, in terms of PR and political credibility. When focusing on key commitments only, arrangements can be pulled together fairly quickly and cheaply. Often particularly helpful on the public sector side where it can eliminate the need to go through a lengthy approval process, as the public sector body does not make a commitment to much more than a conversation.

Overcoming the challenges

Some will ask whether this model will actually secure any delivery. For new homes to be delivered you need specific sites and opportunities. It is better to think of a framework as the building block for projects to step off and help build trust between the public and private sectors and then move along the scale into a contractual partnership for example.



Contractual partnership

This type of arrangement remains a popular choice, often where one party has the land and the other has the money. Typically housing associations or the public sector may contribute land and the private sector partner will bring development expertise and ready-made supply chains.

Benefits

They act as an attractive delivery tool for single sites / transactions, where a corporate vehicle and the accompanying additional administration which goes with that, may be considered a burden. For private developers and housing associations, this model avoids the need to establish a separate corporate vehicle which often cannot be done without the need for lender consent, often at a cost.

On a purely commercial side, there are contractual structures out there which are SDLT efficient, especially if one party already owns the land.

Overcoming the challenges

Understanding the return each partner requires can cause tensions. The private sector is predominantly driven by commercial return, be that short term for house builders, medium term for regeneration specialists, to the long term revenues for funds and investors. These variants can, however, be accommodated by bespoke provisions in any agreements.

Long term flexibility and scheme changes, can give rise to the need for variations to the documentation, which can prove cumbersome. This is in contrast to a corporate model where the board can be empowered to make decisions without changing the legal documentation. That being said, a similar structure can be provided for in a contractual model.

So why are contractual models not the panacea for all? By the fact that many contractual partnerships are bespoke, they do often take time to agree, and parties can be left feeling the process was "hard work". Unlike a corporate vehicle where there is, underlying the structure, a series of statutory provisions set out by the Companies Acts and Limited Liability Partnerships legislation, all those mechanisms need to be agreed and drafted into the documentation underpinning a contractual partnership.

A further issue with contractual models can be funding. If third party debt is sought, whilst a charge over the land assets can be offered, the funder may be looking for additional security over the contracting entities. In contrast, if a corporate model is adopted, in addition to land charges, it is also possible to offer security over the vehicle itself, for example share charges.

Corporate models

Corporate partnerships can in themselves take a number of forms: REITS, joint venture companies (JVCos), limited liability partnerships (LLPs), etc. The choice of corporate vehicle is usually driven by the nature of the partners themselves: are they themselves incorporated; based off shore; is one of the partners charitable; do they benefit from specific tax treatment or reliefs?

Benefits

This type of arrangement can be incorporated very quickly using standardised documents, underpinned by statutory regime. It's relatively easy to provide for different stakeholder interests and returns, for example priority or preferential returns and to attach different voting rights to different classes of shares. As a separate legal entity any LLP or JVCo offers ring fenced liability, which can be useful if the partners have charitable, statutory or other limitations on their powers.

One of the key advantages of the corporate model is where external debt funding is sought. A funder may want to take security over the vehicle itself as well as any land assets. For multi site or phase partnerships, it's possible to look at a multi-tiered structure, with different sites/projects/tenure being delivered in separate vehicles, with an overarching holding vehicle. This flexibility would for example allow separate funders in respect of each site/scheme.

A corporate vehicle is likely to be the preferred choice for any investor into a partnership. This is an increasing trend. Rather than seeking debt finance, an investment partner, one willing to assume some development risk, is brought into the partnership itself. Whilst investors are increasingly willing to look at this type of investment, they are still rooted in the traditional lender sector and hence the preference for ring fenced, corporate models. This also allows an easier and more flexible exit, as the shares or interest in any vehicle can be sold.

Potentially a separate corporate entity also allows for the creation of strong brand identity, distinct from that of the partners themselves.

Overcoming the challenges

As it is a separate legal entity, any corporate vehicle will require a level of "administration", at the simplest level the filing of relevant documentation with, for example Companies House. There can be a challenge to get the parties to understand the scope and limitations on their role. For example the extent to which the management board will make decisions and what will constitute a 'reserved matter' requiring partner approval. In order to ensure the public sector is able to engage in these types of projects, and as identified in the recent Building Bridges Report published by the Chartered Institute of Housing in September 2017, the industry must give more commitment to the upskilling of public sector staff to empower them to do so.

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