What are joint ventures? Corporate real estate explained...

- 1. How joint venture arrangements are a growing trend which can unlock value in difficult real estate climate
- 2. The key benefits of joint venture arrangements
- 3. What structures are used by joint ventures, and how these can be governed and administered

Joint venture real estate projects provide managers and investors with a collaborative way to pool resources and partner with experts in different fields, with a common goal of building more successful and profitable projects together. But how do joint ventures work in practice, and what structuring and governance factors do you need to establish to ensure your corporate real estate project is built on solid foundations? Here <u>Richard Anthony</u> explains all.

Rising interest rates have had a significant impact on real estate investment, with a noteworthy reduction in fund launches and investors seeking the safety of bigger funds, according to Preqin's Global Report 2024: Real Estate. According to the report only around €100 billion (\$107.7 billion) in aggregate capital was raised globally in the first nine months of 2023, a mere 56% of what was raised the year before. These factors, among others, mean that investors are looking for creative and innovative ways to build value in real estate.

Corporate real estate joint ventures offer an alternative method of deploying capital, in which different parties collaborate, contributing their own unique resources such as capital, expertise or land towards a common project. Each

party then shares the risks, costs - and profits - of the project, while parties benefit from accessing new markets and opportunities presented by the partnership. The devil lies in the detail, structuring and governance around the joint venture is where managers need specialised skills to help them maximise the benefits and mitigate any risks.

Different types of joint venture arrangements

Broadly speaking there are three types of joint-venture arrangements, which we've summarised below:

- 1. **Limited co-operation** where different parties agree to collaborate in a limited and specific way.
- 2. **Separate joint venture business** where contractual parties set up a separate legal entity to handle a specific contract or project (see below).
- 3. **Business partnerships** where parties enter legally binding business partnerships which then work together across projects and contracts.

Joint venture structures and arrangements

The more common forms of joint venture structure or arrangement for investment into UK Real Estate are as follows:

- 1. **Jersey Property Unit Trust (JPUT):** A unitised trust that can be transparent for income tax and exempt from UK capital gains when the underlying property is put up for sale. The property sale can also have reduced stamp duty charges applied by structuring the sale as a transfer of the units in the JPUT.
- 2. **Limited Partnership (LP):** Typically, 'un-unitised', where JV parties 'commit' and contribute capital in exchange for an interest in the LP. Appealing due to its legal flexibility, tax transparency and limited liability protection afforded to the JV parties.
- 3. **Real Estate Investment Trust (REIT):** A REIT is a company that owns, operates, or finances income-producing real estate. REITs are often used in joint ventures to pool capital from multiple investors in a tax efficient way. Where a REIT owns at least 40% of a corporate joint venture which is not a member of the REIT group, the REIT can make a joint venture election to treat an appropriate share of the joint venture's property business as being part of the REIT group.
- 4. Limited Company: The traditional limited company. This has slightly less

- legal flexibility compared with a JPUT or LP and arguably, less tax transparency, but a tried and tested option nevertheless.
- 5. **Joint Venture Agreement:** A joint venture agreement is a contract between two or more parties that outlines the terms of the joint venture, including the responsibilities of each party, the sharing of profits and losses, and the exit strategy.
- 6. **Development Agreement:** A development agreement is a contract between a developer and an investor that outlines the terms of a real estate development project, including the scope of work, timelines, and budget.

Joint ventures in practice

There are many recent and well-reported joint venture real estate projects which have delivered success, both for investors and beneficiaries alike. One such example is the Access Development Partnership, a joint venture between PGGM and Legal & General's BTR fund, launched in 2016. The Partnership has invested more than £2bn across 17 residential development sites in the UK, delivering over 5,000 homes by 2025, at a time when demand for housing has been outstripping supply.

Augustine Hill in Galway, Ireland, is an urban regeneration project that brings together Córas Iompair Éireann (CIÉ), which owns the land, with developers Summix Capital and Edward Capital. It is an eight-acre retail site which includes 260 apartments, a 189-bed hotel, as well as an entertainment centre, restaurants, a craft food market as well as 11 new pedestrian-only streets. Once completed, the development is expected to add 2,700 jobs and contribute £200 million to national income, as reported by the <u>Irish Times</u>.

In 2018, Greystar Real Estate Partners and Henderson Park created a joint venture to deliver the unique residential development at 101 George Street in Croydon, London. It comprises two of the world's tallest towers built using modular construction. At 44 storeys and 38 storeys respectively, the development provides 546 homes. The building was completed in just 26 months. During construction, 96.6% of all waste was recycled and because of the modular design it is estimated to save 50% of carbon emissions.

Why establish a joint venture arrangement?

By establishing a joint venture project, you can leverage the skills and expertise

of other businesses to complement or strengthen your own offering, creating something you might not be able to achieve alone. Partners with different areas of expertise can work together to reach specific goals.

There are a number of benefits to setting up a joint venture corporate real estate project, including:

- 1. **Speed to market:** allowing multiple parties to come together and pool their resources, expertise and networks to quickly capitalise on opportunities. Parties can access a larger pool of capital, which can facilitate faster decision-making and execution of projects.
- 2. **Flexibility:** allowing parties to tailor the terms of the joint venture agreement to suit their specific needs and objectives.
- 3. **Shared responsibility:** parties can agree on how risks and rewards will be shared among the partners, providing flexibility in managing and mitigating any associated risks.
- 4. **Delegation to specialists:** parties can leverage the expertise and specialised knowledge of professionals in the real estate industry, such as construction, design, project management and marketing.
- 5. **Reduction in cost:** joint ventures can lead to improved project performance, efficiency and overall cost.

The potential risks of a joint-venture arrangement:

Like any project that benefits from the input of a number of partners, there are some potential areas of conflict such as the challenge of managing many stakeholders as well as culture clashes that can occur when different organisations come together. This is why clear communication, transparency, and governance structures, setting clear expectations, defining roles and responsibilities, as well as addressing potential issues proactively, is crucial.

This is also where the expertise of a skilled corporate real estate manager and their administrator can help. By ensuring good governance is implemented at the outset of a project you avoid any potential pitfalls, including:

- 1. **Due diligence:** Conduct thorough due diligence on all parties involved in the joint venture to assess their financial stability, expertise, track record, and reputation.
- 2. Alignment of interests: Ensure that all parties have aligned interests,

goals, and objectives for the project.

- 3. A clear and detailed agreement: It is crucial to have a comprehensive joint venture agreement in place, outlining the responsibilities, rights, and obligations of each party involved in the project. The agreement should address key issues such as the decision-making processes, profit sharing, dispute resolution mechanisms, and exit strategies. The agreement should also be read in conjunction with and aligned with constitutional documents. It is also essential that procedures and controls are developed and maintained to ensure ongoing monitoring and compliance.
- 4. **Communication and transparency**: Establish clear channels of communication and regular updates among all parties involved in the joint venture.

Joint venture real estate projects are something we are seeing more and more of in our industry, and our specialist real estate team is already partnering with a number of real estate managers to service their joint venture projects. If you'd like to discuss any of points raised in this article, or how we can support your joint venture, please contact **Richard**.