

# LAND + EXPERTISE + FUNDING = SUCCESSFUL RESIDENTIAL DEVELOPMENT

Industry opinion concludes that new partnership models are key to successful residential development



**EC HARRIS**  
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**At the recent RESI 2011 conference, EC Harris hosted a roundtable discussion with representatives from a broad cross section of the UK residential property community.**

Everyone represented a different part of the residential 'deal map' and all are key to providing the assets, funding and expertise required for the successful planning and delivery of residential development. We discussed the current challenges facing the UK industry and what each party could bring to a successful partnership relationship.



**The attendees included:**

**John Beresford**

Development Director  
Grainger

**Donna Bowler**

Head of Strategic Housing Service  
Rochdale MBC

**John Carleton**

Managing Director  
Genesis Homes

**Adam Gaymer**

Director  
Altyon Partners

**Phillip Hooper**

Senior Director  
Royal Bank of Scotland

**Richard Leslie**

CEO  
Dukelease Properties

**Metin Guvenor**

Chairman and CEO  
Triangle Property

**Chris Langdon**

Development Director  
Ardmore

**Craig McWilliam**

Executive Director  
Grosvenor

**Kathy Wadsworth**

Strategic Director Regeneration  
Portsmouth City Council

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## When to release public sector land

There is a challenging dichotomy between the current need for the public sector (both local and central government agencies) to release land for development versus the inherent desire to preserve taxpayer value, by not selling assets whilst we are at the bottom of the market cycle. Increasingly the public sector has to look at longer term participation models.

Access to future value growth or revenues, in partnership with private sector expertise and money is considered most important to all parties involved. Many local authorities find this a painful decision due to the increasing squeeze on capital funding that drives their need for maximised capital receipt. However, many have no alternative, if they are to promote regeneration and economic growth. The increasing lack of accessibility to the home ownership market suggests that the rental market will feature in investment models moving forward, despite the much lauded inability of the institutional market to support it to date.

Several of the developers present confirmed that they are actively involved in different forms of long term partnership with local authorities and see this as a route to viable development. This model allows for risk to be shared and cash flow improvements through deferred land payments. In many instances, the developer believes that the Local Authority should be an active partner in the planning process.

During the discussion, it was suggested that there is a case for central government to redirect its efforts in quantitative easing by creating increased liquidity through buying or funding infrastructure and built assets rather than money and bond market interventions. The general consensus is that the wider multiplier effect and the longer term upside for the economy would appear to be more compelling!

## The need for an upfront culture and attitude towards partnership

The culture and attitude of each party contributes to the success of the partnership. According to more than one attendee, the attitude at the start of a development is vital. It is important to understand what each party can bring to the partnership, rather than purely assessing what you can get out of it. However all realise, that for the private sector to be actively engaged, a route to profit must be identified.

Transparency is a vital requirement. All need to communicate what they want and need from the partnership from the outset for the model to be a success. This is very different to how it used to be, and to quote one of our guests, it centred around “the suppression of mutual loathing to access someone else’s cash.” The commercial realities of the private sector are not always aligned with the wider non-financial motives of the public sector.

One developer who is working on a partnership based development deal, where the Local Authority is providing the land and the developer is providing the expertise, stated that

*“There is a case for central government to redirect its efforts in quantitative easing by creating increased liquidity through buying or funding infrastructure and built assets rather than money and bond market interventions.”*

at the outset, the Local Authority provided the developer with a list of ten things that they wanted out of the deal at the point of exit. There was no ambiguity and the viability of the scheme can be structured from day one to address any potential barriers to the development.

One lender made it clear that being able to confidently lend against development requires transparency and a clear understanding of the value added by all. There is still some suspicion that developers are not able to bridge the concept of maximising short term returns with the idea of place making and longer term value creation. This will continue to hinder any move to a longer term development led business model in the UK.

## Local Authorities are pivotal to the success of new partnership models in residential delivery

According to the majority of our guests, including the local government representatives, it is crucial that Local Authorities provide leadership and articulate their strategic vision of place. Many Local Authorities are working together with the HCA to bring these two requirements together and to provide a clearer picture to prospective private sector partners and developers. However, examples of strong political leaders with a cohesive vision of their town / city are not widespread enough. It was stated that local authorities ‘know more of what they don’t want as opposed to what they do want!’ Too often an unwillingness or inability to act without consultation hinders the pursuit of development opportunities. There is frustration from Local Authorities with the pace at which central regulatory reforms enable them to engage with the private sector. It is clear that Local Authorities create the momentum to drive activity as they have the land and the approach to planning.

*“The developer / trader model continues to act as a barrier to longer term investment holds.”*

## Where will the money come from?

More often Local Authorities are searching for longer term investment to help promote their opportunities. Shorter term investors are not attracted to the longer return periods driven by regeneration and constantly changing legislative frameworks, which creates risk on any longer term investment horizon. Patience and institutional money has failed to surface in the residential sector despite evidence of better longer term returns than commercial property. One developer put the residential sector investment lethargy down to the historical training of the investment and property professions being totally commercial property focussed. There was a lack of incentivisation for fund managers to get involved and a deep mistrust of the problems inherent in residential management where only really the Registered Provider sector has historically addressed asset management in a residential context.

The developer / trader model continues to act as a barrier to longer term investment holds. Land values are predicated on capital receipts not longer term cash flowed revenue based yields. According to the majority of our guests, unless the land market rebalances or the planning system forces this, it is unlikely you will see a large up swell in UK institutional investment.

One attendee promoted the concept of a centralised investment database similar to how overseas trade missions have to sell the opportunity for foreign direct investment in a particular market. The UK residential and regeneration sector has to do its own ‘hard sell’ but needs to present the wider international investment market with a database of thoroughly worked through opportunities where the appropriate due diligence has already been done for funders to understand risk and return timelines and to easily access these without undue bureaucracy. The HCA currently has this role but is it doing enough to enable widespread access by different types of capital including international money?

## In Summary

It is clear that there are some ‘mission critical’ issues that need to be successfully addressed to enable the sector to move forward in a sustainable way outside of the very different prime London dynamics, (which did not form part of the discussion).

We identified that there needs to be:

- The use of more longer term partnership models that don't rely solely on initial land value or development profit at completion
- The ability of the private sector development community to promote trust and openness through partnership models
- A willingness from central and local government to understand their role in promoting viability through the land and planning process, as well as government promoting the appropriate legislative framework within which the development takes place
- A step change in the way the sector markets and structures itself to potential funders as well, as how it is perceived by funders.

Those around the table recognised that the current challenge is for everyone to work out what part they can play to address the above issues and to help the sector recover from its current travails.

## For more information please contact:



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