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JOINT VENTURE PROPERTY DEVELOPMENT IN NIGERIA

In the recent years, the housing deficit in Nigeria was estimated to be around 17 Million.
It was also projected that Nigeria will require about 59 Trillion naira to remedy this situation.

The imperative to build more houses is now driving increased property development in Nigeria with a focus on houses and apartments which are typically required. With the high interest rates from banks in Nigeria, property developers are constantly exploring innovative ways to fund projects. This opens up exciting prospects for property investors looking for better returns.

A popular financing structure favored by most developers is the joint venture property development wherein the investor or landowner provides the land as its equity while the developer along with other joint venture partners would provide expertise and/or funding for the construction. Alternatively, there may be multiple joint venture partners who would fund the entire project through a Special Purpose Vehicle.

In this article, we shall be examining the joint venture structure, which can be used as a way of financing property development in Nigeria.

What is a Joint Venture in this context?

According to the Corporate Finance Institute, a real estate joint venture (JV) is a deal between multiple parties who work together and combine resources to develop a real estate project. Most large projects are financed and developed as a result of real estate joint ventures. JVs allow real estate operators (individuals with extensive experience managing real estate projects) to work with real estate capital providers (entities that can supply capital for a real estate project).

However, the solution looks to lie in the adaption and refinement of a tried and tested model - the Joint Venture Agreement (JVA). Most property joint ventures involve one partner contributing the funds/finance and the other partner contributing their sweat equity/time and skills. If deals are properly structured and both parties have the necessary skills and resources then there’s a solid foundation to deliver a successful joint venture project.

How does a joint venture work in Nigeria?

In Nigeria, joint ventures often involve two or more parties. The various parties must first of all agree to set up a joint venture. They will then proceed to setup and register the special purpose vehicle (SPV). A special purpose vehicle, also called a special purpose entity (SPE), is a subsidiary or company created by a parent company or joint venture investors to isolate financial risk and obligations of the SPV from that of the Investors. Its legal status as a separate company makes its obligations secure even if the parent company or any of the joint venture partners goes bankrupt.

The SPV is usually a private company created for one purpose and one purpose only. This could be a housing development, a series of developments, or the conversion of a commercial building into apartments. The registration of this SPV is done with the Corporate Affairs Commission.

Usually, the various parties will agree on a mechanism for profit sharing and distribution of proceeds based on the agreed Return on Investment model. A Shareholders Agreement would also be created in order to govern the relationship between the shareholders and between the shareholders and SPV. New Investors can also purchase shares in this newly formed entity and this is a way to raise additional funds for the project, if so required. The shares will entitle the shareholder (Investors) to a percentage ownership in the SPV and can therefore share the profits generated by the company.

Special purpose vehicles are often wound-up after the completion of this project and the appropriate distribution of all proceeds and assets.

Are you are looking at creating a joint venture real estate/property development, you can reach out to us to find out more.