Room 151
Local Government Treasury, Technical & Strategic Finance

Q&A with Chris Shepherd on LABVs

by Colin Marrs   1 May, 2014

Local asset backed vehicles (LABVs) were all the rage a few years ago. Room151 talks to Chris Shepherd, head of real estate and assets – London at the government & infrastructure advisory division of consultant Grant Thornton about whether they are still a good option, and what else local authorities can do to sweat their land assets.

Room151: What is a LABV?

Chris Shepherd: A LABV is just a form of joint venture – a contractual relationship between two different bodies. Generally, a local authority will put land into the vehicle matched by a partner's cash. Profits from development are split 50:50 between the two parties

R151: Why has there been a drop in the popularity of LABVs?

CS: The first wave of LABVs were brought to the market at its height, but after the credit crunch, land values dropped and they became more difficult. Lower development values meant that the returns that could be made dropped.

R151: What is the current situation?

CS: There are still local authorities saying we have got assets we aren't sweating as much as we might. Is there an opportunity to put them in this vehicle to meet our strategic aspirations? Now people are looking to put them into a vehicle to create an income by taking a lease off the land or developing commercial assets and taking a rental income.

R151: Are LABVs only suitable for commercial development?

CS: You can use them for anything. Slough Borough Council is undertaking a massive regeneration scheme and is putting different sorts of assets in to its LABV, including residential.

R151: What are the alternative vehicles to LABVs?

CS: There are lots of things that local authorities are doing. Some are setting up property vehicles – 100 per cent owned companies and using borrowing powers or treasury management cash to develop their property. Most authorities are cash rich but revenue poor. Such vehicles can be another way of developing a regular income stream.

R151: What else can a local authority do with its land?

CS: Some local authorities go down the traditional route of appointing a contractor to develop the land for them. This is less risky than a separate vehicle, but the council has less control over the final shape of the development.

Some local authorities are partnering with institutional investors, notably Barking and Dagenham with their William Street Quarter. They borrow money from the institution and pay them back with receipts from the rental of the housing they have built. The advantage over the PWLB is that they can draw down the borrowing more gradually than with the PWLB.

R151: How should councils decide whether to sell land or set up a joint venture?

CS: I would never say don't sell. If you think you have the skills to take it further and sweat the asset a bit more then it is worth considering. It depends on your appetite for risk – selling it has very little risk.