JOINT VENTURE HOUSING PROJECTS IN DAR ES SALAAM CITY: AN ANALYSIS OF CHALLENGES AND EFFECTIVENESS

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National Housing Corporation (NHC) a public sector in Tanzania, adopted Public Private Partnership (PPP) strategy since 1980s, with the aim of re-developing its condemned buildings, increase its property portfolio and market share. However these Joint Venture (JV) projects encountered a number of challenges causing some projects to fail. This study aims to identify the challenges and assess the effectiveness of NHC-JV projects. In other words the study entails to know if the JV projects were beneficial to the corporation and the public at large. The following criteria such as quality of buildings increase in rental income, tenants’ satisfaction and timely completion will be used to measure the success. A mixed method approach was used to collect data. The sample was purposely selected. The study was further reinforced by theory of constraints and equity theory. The obtained findings indicates that NHC-JV projects were not as effective as planned due to non-adherence to the rules and regulations, bad determination of initial shareholding ratio, weak contracts and inadequate management of the projects. Nevertheless some benefits such as improvement of the quality of buildings and increase in rental income were realized. Hence, this study recommends careful selection of potential partners, close monitoring and evaluation of projects.

Keywords: joint venture, housing projects, partnership, Tanzania

INTRODUCTION

The current National Housing Corporation (NHC) in Tanzania is the outcome of the decision of the Government to dissolve the Registrar of Buildings (RoB) through Act of Parliament No. 2 of 1990. Under this Act, the responsibilities of RoB were vested with the new NHC. The Corporation was charged with the responsibility of providing and facilitating the provision of houses and other buildings. Generally, the establishment of NHC was a government response to mitigate the alarming housing problem that faced the majority of African urban dwellers. In this respect, NHC was charged with the role of providing affordable housing to the urban poor, redeveloping the acquired buildings due to the fact that most of these buildings were constructed during the colonial era and were therefore dilapidated and classified as condemned.

Between 1962 and 1974, the Corporation constructed a total of 14,145 housing units under slum clearance, rental and tenant purchase schemes. At that time the NHC

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financed its projects through various ways including, Government subventions, grants, equity funds and loans. Between 1975 and 1989, the NHC managed to construct 1,894 housing units. This decrease was attributed to the government budget decline, increased construction costs and high inflation rates that resulted from economic crisis. The figures indicate that the contribution of NHC to the housing sector after 1974 was not significant. Consequently, the units constructed were very few as compared to the population influx of people in urban (Kavishe, 2010).

In Dar es Salaam, for instance, most of the buildings in the city centre were proxy to condemnation and others including Alcove premises were condemned which means they were unfit for human habitation (Maagi, 2010) The run-down buildings in urban centers made the area look ugly. Furthermore in 1992, the government issued Circular No. 1 which required public parastatals to operate commercially (NHC, 2006) Thus, no more subsidies were given to NHC. Hence, the above reasons stirred NHC to adopt Joint Venture (JV) strategies as a means of redeveloping its estate. Therefore this study seeks to identify the existing challenges and assess the effectiveness of these projects in order to reveal if they were beneficial to NHC and the public at large.

Historical Context of NHC’s Joint Venture Projects

(a) Before the Repeal of the 1971 Acquisition Act (1980 - 1990)

The strategy for redeveloping prime plots hosting condemned buildings in partnership with potential real estate investors was initiated by the defunct RoB during the 1980s. This institution devised a public-private partnership in this endeavour. Later on the strategy also involved buildings which were no longer in conformity with best land uses. During this period a number projects were implemented. However, at that time there was no clear JV policy to guide them. As such, the terms and conditions for participation in these undertakings varied from one project to another depending on the cost magnitude of an individual project. To a greater extent, the terms and conditions were holistic, governed by trust between partners.

(b) After the Repeal of the 1971 Acquisition Act

After the repeal of 1971 Acquisition Act, and the enactment of the NHC Act No.2 of 1990 at the time when investor’s confidence in economic liberalization was gaining roots, there was increasing pressure from private investors seeking to invest in commercial property development in partnership with NHC. The influx of prospective investors necessitated the need to have guidelines/policy that would spell out terms and conditions of participating in JVs with NHC. Hence, the first version of the JV policy was approved by NHC Board of Directors on June 11, 1993 (Kavishe, 2010 and Maagi, 2010). Henceforth, the Board of Directors had a mandate to make improvements on this policy whenever such a need arises. Since then the NHC has executed a substantial number of projects under JV strategy currently recorded as 187 projects (Maagi, 2010).

However, the decision of NHC to enter into JVs with the private sector for redeveloping its plots has raised an alarm among the members of the public as to whether NHC adequately benefits from this arrangement. Similarly, widespread delays in completion of projects are another point which raises questions as to whether NHC benefits from such projects. The society also goes further to query whether the projects have significant impact on real estate development sector. It is along these lines that, this study intends to examine the JVs challenges and their effectiveness.
THEORETICAL FRAMEWORK

Considering the widespread delays in completion of projects experienced by NHC-JV projects alongside other challenges, Theory of Constraints (TOC) and Equity theory provides the theoretical departure of this study. According to Mabin (1990) the major component of the TOC is the Thinking Processes (TP) because it provides a road map for change by addressing three major questions; (1) What to change (2) To what to change to (3) How to cause the change. Equity theory refers to a situation where a partner assesses its own inputs and returns against the other partner’s in an alliance Adams (1965 cited in Zhang and Jia, 2010) and Scheer et al., (2003). If a partner notices some inequity in the relationship will respond negatively.

LITERATURE REVIEW

JVs has been referred to as the collaboration of at least two organisations or business with the aim of sharing resources, knowledge and risks in order to accomplish mutually agreed objectives (Abd-Karim et al., 2014) The JV partners considered in this study come from different sectoral background and these are public and private sector. A study by Li et al., (2005) acknowledged JVs as a type of Public Private Partnership (PPP) For instance a recent study by Akintoye and Kumaraswamy (2016, p.6) defines PPPs as "joint ventures in which business firms co-operate". But it is worth noting that not all JVs are PPPs.

Drawing from previous studies JVs have become popular for a long time both in developed and developing countries (Adnan, 2008 and Ma and Voo (2014) Likewise a study by Hong and WM Chan, (2014) confirmed that, over the past two decades there is an apparent growth of research on JVs due to their increasing popularity. Growths of technology, access to new markets, competitive challenges, government policy, business capacity, or economies of scale have formed part of the increasing JVs (Adnan and Morledge 2003 and Abd-Karim et al., 2014).

A comparison study undertaken by Ma and Voo (2014) identified four major reasons for establishing JVs in Malaysia including sharing of risks, resources, experience and the transferring of technology and knowledge whereas in Australia three reasons were identified including; transferring of technical expertise, sharing of resources and attaining financial support. In Tanzania the major reason for the NHC to form JVs with the private sector was mainly lack of funds to redevelop their condemned properties and the fear of losing their condemned properties (Maagi, 2010 and Kavishe and An 2016) Experiences from other countries demonstrate that the struggle for promoting land market, meeting housing demands for different group of people especially deprived ones, improving public services and enhancing the private sector in promoting property markets are among the reasons which influence creation of JVs (Sengupta, 2006) It is observed that reasons for creating JVs in the real estate sector may vary locally, regionally or nationally depending on the projects goals.

Since JVs involves two or more different organizations with different values and culture, managing and monitoring of such projects and sharing decision making makes them difficult and very challenging (Adnan and Morledge, 2003) A review of literature has identified a number of studies which have reported on the challenges leading to poor performance in JVs (Minja et al., 2013; Abd-Karim et al., 2014; Ma and Voo, 2014) For example, a comparative study between Malaysia and Australia demonstrated that, "difference in organization policies", "lack of mutual understanding between partners", "inconsistent management styles" and "lack of mutual agreement upon conflict resolution mechanisms are the key challenges in JVs (Ma and Voo, 2014) Whereas within the
Tanzanian context Minja et al., (2013) identified the following as top three ranked challenges "identification of possible risks", "inability to interpret JVs agreement" and "operations by different contractors". A recent study by Abd-Karim et al., (2014) admitted that "conflicts" is the main cause of failures in JVs. Additionally Mahmud and Zhi, (2009) identified ‘obstruction’, ‘multiple or differed objectives’, ‘inadequate communication and coordination’, ‘governmental policies’ and ‘basis for determining ownership’. To summarise on the identified challenges, it is noted that human related issues (conflicts, incompatibility, disagreement, and poor communication) appear as the key challenges. Additionally, these challenges imply that, poor project management skills and partnership skills are the root causes.

Since the study also assess the effectiveness of the NHC-JVs, it is therefore important to consider factors contributing to JVs success. Numerous studies (Famakin et al., 2012; Vivek and Richey, 2013; Ma and Voo, 2014; Alrashdan and Almujamed, 2017) have identified that partner selection, regulatory compliance, mutual commitment, trust and understanding, communication, compatibility of objectives; equity, appropriate risk allocation and management are key conditions to the JVs success.

RESEARCH METHODOLOGY

The perspective of TOC as stated in section 1.2 support the need to undertake this study as it provides a road map for change. The aim of the study is to identify the challenges facing the NHC-JVs and assess their effectiveness. Therefore, to obtain the targeted information a convergent parallel (concurrent) mixed method approach was adopted. Questionnaire survey and semi structured interviews were used to collect data. The goal was to obtain different but complementary data to answer a single research question. The justification for adopting the mixed method approach is nested within its ability of increasing the validity and reliability of the results (Easterbrook et al., 2008) and through offsetting the weakness of each tool (Kothari, 2004) The collected data was analysed independently and both the quantitative and qualitative methods had the same priority status (Molina-Azorin 2007).

Measure of central tendencies was employed to questionnaires and content analysis was used for interviews. Purposive sampling was adopted in order to obtain stakeholders involved in the NHC JVs projects in Dar es Salaam City. Also this approach has been widely adopted in public private partnership (JVs) research studies see (Zhang, 2005, Osei-Kyei et al., 2017) The rationale for choosing Dar es Salaam as the study area includes: accessibility to conduct survey in order to obtain required data; also about 60 per cent of JVs projects, and NHC head offices are located in Dar es Salaam. Therefore the targeted population included NHC staffs who have participated in the JVs projects, NHC private partners and tenants. With the help of the NHC-JVs manager a total of 187 projects were identified but these were into different stages, 29 were completed, 48 were under construction, 100 were under preparation whereas 10 were stalled. However, in order to accurately answer the research questions only the completed projects were studied.

Population Sample

Out of 25 questionnaires sent, 18 were returned as seen on Table 1 below. Responsive responses came from 1 Engineer, 8 Architects and 9 Quantity Surveyors who are construction related professionals thus enhancing the validity and reliability of the data. Tenants had poor survey response, some claiming to misplace the questionnaires and others not getting the time to respond. Therefore 4 tenants preferred to be interviewed
after several follow ups were made. Other interviewees were selected from the management staff of the NHC and private sectors. Due to private partners confidentiality aspects, only 6 agreed to take part and preferred the interview approach. While the questionnaire participants were NHC staff involved in similar projects and tenant of these NHC-JVs. The sample involved respondents of various levels of education attained, relevant working experience and positions at their work places. These characteristics were important as different categories of respondents might have different views based on levels of education, experience or work positions. The profiles of interviewees according to their positions were as follows: from the public sector interviewee A was a JV manager, B was a regional manager, C and D were JVs coordinators. From the private sector all 6 (E through J) interviewees were company owners (Managing directors) These position levels demonstrate that all interviewees were at management level and provided vast depth of knowledge on project management. Additionally their experience in managing JVs ranged from 5 to 20 years. This profile tells us that, respondents were qualified to provide the answers and hence enhancing the validity of the findings.

Table 1: Summary of respondents

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Questionnaires</th>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Distributed</td>
<td>Received</td>
</tr>
<tr>
<td>Public sector</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Private sector</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Tenants</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>18</td>
</tr>
</tbody>
</table>

**FINDINGS**

Challenges facing the implementation of NHC joint ventures

In response to the question about the status of the NHC-JV projects, it was specified that during the survey period NHC had a total of 187 JV projects which were into different stages: 29 were completed, 48 were under construction, and 100 were under preparation whereas 10 were stalled due to various reasons. This status clearly indicates the existence of challenges to its performance. Through open ended question respondents were further asked to identify the barriers inhibiting the delivery of NHC-JV projects from their experience point of view. These challenges were listed:

*JV Policy flaws and loopholes*

The 2006 policy of NHC requires the partner to finance the project 100% while NHC contribution is limited to the project land which accounts for only 25% of the project costs. This blanket of 25% applies to all projects as NHC shares regardless of the magnitude and locality of the project. 60% of questionnaire respondents and all interviewees (n=4) from NHC admitted that, "JV Policy did not consider the valuation of land in determining NHC shares in JVs projects. Therefore 75:25 ratios were used to all projects regardless of the size and locality of the project". Also interviewee J who was a lawyer by profession stressed that, "NHC-JVs policy was inadequate because NHC is entitled to hold a 50% share in projects requiring big cash outlays, which NHC could not afford to finance. However, the policy stipulated for, NHC to start with minority shares of not less than 25% but with the right to acquire another 25% after 12 years. It was then revealed that some contracts stated that at the end of the 12th year if NHC fails to increase its share to 50% then the property will be fully owned by the private partner. These loopholes benefited most investors since NHC was not capable of increasing its
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share within the stipulated time because of its poor financial situation. This finding agrees with (Mahmud and Zhi, 2009; Minja et al., 2013).

Project financing
90% of the private partners admitted that financing of the JVs project was very difficult because of these given reasons: (a) Partners were not allowed to use the title deeds to acquire loans from the banks (b) The interest rates from the banks were very high (c) The financing of the project was 100% left to private partners (d) NHC as a public body did not make any efforts to support the projects or even secure subsidies from the government except on tax exemption on imported materials.

Equally interviews from the public sector claimed that some partners faced financial difficulties few months after the start of the project which led to delays, poor performance and unsuccessful delivery of the projects during project implementation. This happened as a result of private partners submitting false financial report implying mistrust. These results are consistent with (Maagi, 2010; Abdul-Aziz and Kassim, 2011; and Kavishe and An 2016) Example misinformation on private partner financial capacity was ranked the 5th and appeared significant.

Risk sharing
It was reported by Interviewee A and B that in most cases private partners tend to avoid risk in their business and in some situations they are not willing to take any risk element because they feel it reduces profit and may increase the possibility of failure. For instance interviewee A highlighted that some risks were not identified similarly most private partners were not willing to invest in other regions apart from Dar es Salaam and Arusha due to fear of market risk. This finding was also ranked first in the similar study from Tanzania (Minja et al., 2013). Equally, a Malaysian (Mahmud and Zhi, 2009) study identified similar finding.

Loss of rental income
Respondents from both the public (n=4, 100%) and private (n=4, 66%) commented that NHC loses more rental income from the properties committed to partnerships. The loss occurs when NHC terminates tenancies and demolish properties while financiers are not yet ready for takeover or when there are delays to accomplish the construction process. This challenge implies lack of adequate planning and communication as is ranked 1st in Kavishe and An (2016) and poor risk identification as attributed by Minja et al., (2013) Thus, NHC should put in place a clear strategic plan that will clearly describe the responsibilities of both the public and private partners. A good plan or contract will include a clearly defined method of dispute resolution.

Getting vacant possession of plots resulted into conflicts
Majority of the partners 90% attributed this has been a major challenge as tenants and ex-owners of properties refuse to vacate the plots or buildings even after being given official notice to leave. When redevelopment has to begin, still they continued to resist orders for vacation of premises. As a result, conflicts arises where the private partners have in most cases undertaken the role of evicting these occupants and this process has proved to be lengthy and costly as some cases were taken to court. In the literature review conflict appeared as a major challenge in JV projects (Abd-Karim et al., 2014).

Stalled projects
The study also revealed that there are a number of projects which have been stalled as reported earlier mainly due to financial difficulties facing the partners. NHC respondents revealed that, their experience shows that most of the projects which failed to take off on
time belong to indigenous investors bearing in mind that partners had to finance the project by 100%. The aspect of poor risk management and financial incapacity further reveals their negative impact. Based on the equity theory, Scheer et al., (2003) claims, equity improves firm’s level of commitment and involvement, which promotes collaboration however he warned that a presumption should not be made that firms/parties always behave in line with the equity theory predictions.

**Poor communication**

All NHC respondents claimed that both JV agreement and NHC policy insists on mutual involvement of the partners in decision making in issues such as appointment of contractors and consultancy, share apportionment, property management etc. However, private partners tend to operate not in favour of the JV agreement and policy. The study observed that in many instances, partners make their own decisions over the project without involving NHC. For instance Partners may decide to rent part of stalled projects without NHC’s consent. Furthermore it was noted that some private partners made changes on the design without getting public partner concern. A vivid example was proved in 2013 when the private partner was permitted to erect10 floors instead the developer erected a 16-storey structure which collapsed and resulted into hazardous situation. This finding implies that NHC had inadequate project management and monitoring (Kavishe and An 2016) More so, private partners had the freedom to select their own contractors and make own decision on the JVs project. These findings also demonstrated the existence of ‘inequity’ from the Equity theory (Adams 1965 in Zhang and Jia 2010) among the Tanzanian NHC-JV partners.

**Assessing effectiveness of NHC JV projects**

Assessment of any project performance should consider whether there are areas or indicators of changes and improvements that benefit the beneficiaries of the project. It further considers how well the production of project results contributes to the achievement of the project purpose. In this study context the success (benefits) of the NHC-JVs was measured under the following key criteria: (a) Property value (b) increase in rental income (NHC revenue) (c) tenants’ satisfaction (d) Housing Development and (e) timely completion

**Enhancing property values**

Interviewee A and B confirmed that, based on the valuation report done in 1996 for old buildings by different valuation firms, values of the new buildings have increased over a hundred folds. The 2009 survey done by Proper Consult (T) Limited shows that the increase in value of new buildings see Table 2 are accredited to many factors including modernizing services and facilities of the building such as provision of swimming pools, air conditioning, lifts and other facilities. It is no doubt that the JVs buildings are more worthy than the previous buildings constructed by NHC itself. This finding agrees with benefits identified by Norwood and Mansfield, (1999).

**Increase in rental income (NHC revenue)**

94% of questionnaire respondents identified that through JVs, the NHC managed to increase its rental income because the new properties were modern and new. This finding was further evident by Interviewee (A, B, C, and D) who attributed that, "the increment is facilitated by the privilege played by the private sectors as partners are able to charge market rent rates as opposed to NHC's rates". Table 2 below justifies the growth in rent considering the annual collection before and after redevelopment for second and third projects listed. Financial strength has been identified in the literature among the benefits for JVs (Girmscheid and Brockmann, 2010).
Table 2: Comparison of Property Market Values in 1996 and 2009 (Tshs’ Million)

<table>
<thead>
<tr>
<th>Plot</th>
<th>Location</th>
<th>1996</th>
<th>2009</th>
<th>% increase</th>
<th>Annual rent before</th>
<th>Annual rent after</th>
</tr>
</thead>
<tbody>
<tr>
<td>16/1-4</td>
<td>Pugu road</td>
<td>198.4</td>
<td>4096.2</td>
<td>1964</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>39A</td>
<td>A.H.Mwinyi road</td>
<td>192.4</td>
<td>3100</td>
<td>1511</td>
<td>1,885.7</td>
<td>115,992</td>
</tr>
<tr>
<td>16&amp;18/30</td>
<td>Swahili/Naru</td>
<td>162.0</td>
<td>4831.4</td>
<td>2882</td>
<td>11,490.8</td>
<td>12,7920</td>
</tr>
<tr>
<td>92</td>
<td>Dakawa-Chang</td>
<td>105</td>
<td>2100</td>
<td>1884</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: NHC Valuation Reports of 1996 and 2009 Notes: Exchange rate (£1 = TZS 2786.76) as produced by OANDA website 05/03/17.

Housing development

As defined clearly in Section 4 of the National Housing Act No. 2 of 1990, one of the major responsibilities of the new NHC was to facilitate the provision of high quality houses and other buildings for use by members of the public for residential, business, industrial and other purposes. Interviewees C and D identified that by 2010 NHC managed to construct 234 apartments or units under JVs as compared to only 71 units that existed in the old buildings. The increment of housing units is about 230%. Residential units marked the highest increase in number from 39 to 181 units which is equivalent to 364%. This finding implies that, through housing development there is a boost to local economy as evidenced on section 4.2.5 and is consistent with Vivek and Richey, (2013).

Tenants’ satisfaction and environmental sustainability

Most of the NHC plots committed in JVs are those which host abandoned buildings typically in poor condition. Interviewee respondents (tenants) claimed that rehabilitation and redevelopment of such buildings have brought them back into a condition that is suitable for human habitation. Tenants strongly affirmed that "NHC-JV properties are of better quality and standard compared to the non JV projects but the rents have also increased to reflect the value". On the other hand, the replacement of old buildings by rehabilitated or redeveloped new buildings has changed the impression and appearance of towns and has created environmental sustainability. Therefore these results supports the 2030 agenda for sustainable development (JVs considered as tools for strategic change) to successful achieve the 11th goal (Make cities and human settlements inclusive, safe, resilient and sustainable).

Economic growth

NHC JV projects have provided employment opportunities; add business premises, storage facilities and hotel apartments which promote the tourism industry. For instance, through JVs NHC built DURBAN and TANSOMA hotels located in the Dar es Salaam City Centre. JVs have significantly contributed directly and indirectly towards poverty reduction through raising individuals’ income levels and increasing productivity of the labor force. This finding agrees with (Adnan and Morledge 2003 and Abd-Karim et al., 2014)

Timely completion

Majority of partners acknowledged that JV projects experienced huge delays because of various reasons such as tenants delay in vacating the old properties, partners facing financial difficulties as well as incompetent contractors selected by private partners in order to save cost. It has been identified that majority (over 60%) of NHC JVs faced delays and some ended up being stalled for a long time. However, very few projects undertaken by committed partners were completed on time. For instance Interviewee E claimed to have hired strong team of consultant and clerk of work to report on daily
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performance of work. The above findings are consistent with studies such as Adnan and Morledge (2003)

CONCLUSIONS

The purpose of this study was twofold; firstly, to identify the challenges facing NHC-JV projects, and secondly, to assess the effectiveness of the projects. The identified findings have important implications for JV partners and managers. It was revealed that the NHC-JVs encountered a number of challenges including: inadequate financing capacity, risk sharing, loss of rental income, conflicts in getting vacant possession of plots, stalled projects and poor communication. Regardless of the existing challenges the study acknowledged that some benefits such as improvement of the quality and value of buildings and increase in rental income, tenants' satisfaction, timely completion and progress of housing development were realized. However, based on equity theory the challenges demonstrated the existence of ‘inequity’ among the Tanzanian JV partners with the private partners given the upper hand in dealing with the majority of the issues.

The study’s results are expected to assist both local and international practitioners seeking to undertake JVs in Tanzania. Secondly, an increased awareness of the challenges affecting the utilisation of JVs would enable the practitioners to develop appropriate coping mechanisms for overcoming the identified challenges. From a theoretical perspective, the study enabled the testing and confirmation of the Theory of Constraints and Equity theories within a lesser investigated context of Tanzania.

REFERENCES


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