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## Shall We Dance?



By [David A. Smith](#)

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To win an allocated LIHTC award these days, in many states developers must achieve virtually a perfect score on their state's Qualified Allocation Plan (QAP). However, given that state allocating agencies have evolved their QAPs to include critical attributes that are inherently in tension, no one company can ever achieve a perfect score by itself.

Scale versus touch, consistency versus adaptability, capital muscle versus irreproducible human connection — whether you are an elephant (big platform, big balance sheet, long track record) or a mouse (small CDC or non-profit, community authenticity, high local political touch), winning requires joining up with another entity that complements yours.

To win, you must partner; to partner, you must negotiate. To negotiate, you must know how to find and recognize the right partner, and then how to join up. For the elephant and the mouse to cooperate for mutual benefit, both must learn to dance. That takes two things: compatibility, and complementarity.

**Compatibility** comes first, because character does not change.

Though entering into a LIHTC deal is just a single transaction, if that deal has two entities teaming as co-developers, this represents a fifteen-plus-year *relationship* in which both parties are in the front seat. Although eventually their control over the steering wheel will be governed by legal documents (e.g. the LLC Operating Agreement), they'll be driving together on a twisty road at high speed long before then: The application must be prepared, pored over, submitted, and won. As when choosing a partner in bridge, doubles tennis, or life, compatibility absolutely comes first, in three critical ways: character, time horizons, and clear understandings.

**1. Personal character.** Deals are verbally struck between people long before they are papered, and the people have to trust each other even as they are negotiating a multivariable game where some interests are aligned and others are zero-sum. Compatibly trading off among all these complexities depends on similarity of personal character — and in judging personal character, there is no substitute for the individuals' comfort with each other. Every time I have done business with a person whom I did not like, I've rued the choice I overoptimistically made, chafing at the needless aggravation, the endless nickel-and-dime, and the ongoing suspicious vigilance.

**2. Time horizons.** For the limited partners, the decade-long LIHTC journey is, they hope and expect, smooth and serene as they watch the years roll by. For the developer joint venturers up front, it's continuously active with a myriad of practical matters as they

maneuver in anticipation of the looming event horizon of Year 10, when the game begins all over again with the expected investor buyout. During those years, the elephant has usually been eating well on property and asset management fees, and the mouse may not have. Further, unless the mouse was alert both at the outset and through the journey, its pickings may be lean, and the mouse may be anxious about Year 10 both socially and economically. Long before the time comes to make decisions about what happens next, the mouse had better be ready.

### 3. Clear verbal and written

**understandings.** A handshake can be a reliable deal between two trustworthy individuals, and a Letter of Intent (LoI) can be a reliable deal design among mutually trustworthy negotiating and syndication teams, but neither survives the closing. Instead, what endures are the actual governance documents. A principle won in the handshake and loosely referenced in the LoI can be whittled into a matchstick by implacable attorneys who retrade agreed business principles under the guise of technical improvements. Hence it is a capital mistake for the executives leading the respective teams to let the attorneys take decision control over the governance drafting. Attorneys must always be directed — and if necessary, overridden — by the deal’s principals. Saying No to the attorneys is especially critical for the mouse, because the elephant will always bring higher-priced lawyers, and more of them.

**Complementarity** is all about each of us adding high value to the other.

**1. Big, meet little.** The most observable attribute of complementarity — big-plus-little — is a functional necessity arising out of underwriting criteria that emphasize financial robustness and size (balance sheet, track record, and existing portfolio performance) while simultaneously requiring allocation-winning local hypersensitivity that translates into “unfunded mandates” (design or tenancy customization, resident social services, [NIMBY-placating acts of community penance](#), etc).

**2. Needs, meet Gots.** Joint ventures arise when *I* need what you’ve got, and *you* need what I’ve got; therefore, instead of the hoary SWOT table, analyze your own entity by your Needs and Gots. Specifically, convert the QAP scoring rubric into a table of rows with two columns: Got, and Need. Put into the Got column everything you can ace on your own. Everything else goes in the Need column. You now have a profile of the ideal joint venture partner — one whose Gots align with your Needs. For this you need high standards because you want a perfect score, so it’s worth some hunting, and then some wooing, to get the right one.



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Needs and Gots also help you judge the relative value each party brings to the joint venture, and hence what fair economics should be. But not all rows are created equal: some have more importance, and some are scarcer. If you have a unique Got — what we at AHI call a Proprietary-Enduring-Disclosable resource — then it may be that you have the actual better leverage, because whichever big partner secures an exclusive with you may have the winning competitive advantage. This is hard for the mouse to recognize, and harder still for the mouse to monetize. Nevertheless, while you value and cherish your partner's Gots, don't undervalue your own.

**3. People, meet platform.** As chronicled in my four-part Guru series Entities Endure — [For Better, For a Long While, For Worse, and Forever?](#) — an organization's age, size, and complacency follow a story arc that Lawrence M. Miller brilliantly crystallized as [From Barbarians to Bureaucrats](#). Primacy of people gives way to primacy of platform, and the platform, like any other large semi-sensate organism, has its own priorities, mutually understood if never voiced.

Platform-led entities and people-led entities differ fundamentally in their resources and processes, cultures, decision-making algorithms, hierarchies and networks, and languages. Each can and does successfully partner with the other, but this takes diplomacy and empathy on both sides of the divide.

**4. Zaibatsu, meet keiretsu.** Ultimately, what emerges from a successful development joint venture is an economic symbiosis, a long-term relationship that depends on compatible complementarity. These concepts were deduced and codified by the Japanese so long ago they have words for them. The zaibatsu — vertically integrated behemoths established as a reaction to the western-capitalism challenge that also triggered the [Meiji Restoration](#) — eventually gave way to [keiretsu](#): “intricate business network[s] with a long-term transactional relationship... composed of banks, manufacturers, supply chain partners, and distributors who work closely together for the success of the whole group.”

Japanese keiretsu emerged out of outside pressure — specifically, the islands' military occupation following World War II which [ordered the dissolution of the zaibatsu](#) in favor of a distributed economy to build a liberal democracy. LIHTC keiretsu emerged out of QAP pressures that deliberately discourage exclusionary scaling. The resulting metropolitan or regional LIHTC keiretsus are economically held together not by *platform* cross-ownership, but rather by multi-year *portfolio* cross-ownership, glued together one at a time by their development joint ventures. Those that succeeded have done so out of compatibility, complementarity, and learning how to sway to the QAP music.

Shall we dance?

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