



Practical strategies for building equity and cashflow

## Peter Comben's Property Development Checklist

### A simple message from Peter Comben...

When acquiring wholesale property to achieve 100% finance is the near impossible in today's market, investors turn to development. With most banks willing to finance up to 75% of the hard costs of a development project, some developers have been able to achieve 100% returns. However, without knowledge and experience, starters may get burned.

**What exactly is a developer?** As has been well put, a property developer is the "mastermind" behind a development project. The job involves getting the permits, organizing project finance and managing a diverse group of people: Real Estate agents, town planners, surveyors, architects/draftsmen, solicitors, financiers, valuers, engineers, builders and accountants. A successful developer must have, or develop, the necessary knowledge and leadership skills to manage all of these people.

**How do you get started?** Most people learn the development game by way of trial and error. Many fail as a result because of expensive mistakes. For those who succeed, more often than not, they have had valuable help – advice, guidance, or even financial backing – from someone who knows what the development game is about, where pitfalls lie, and what needs to be done to prevent them.



# The Property Development Checklist

This checklist has been developed to help people interested in breaking into the development game. It's designed to HELP you get started. I know many of you need a more detailed understanding of the development process. You can download an introductory presentation from our website. Finally, I recommend you attend a workshop on the development process.

## Site Feasibility

### Site Assessment

- What size is the land? (Widths in front/back, depth and total area)
- Is the site flat? Or is it on a slope? Good proportions (i.e. not long and narrow)?
- What is the orientation of the site? Northerly aspect important.
- What will fit? What will the planning codes allow? (You need a working knowledge of the planning codes.)
- Are there any significant trees?
- Where are the services on the site and what new connections need to be made?
- How will my development affect street character?
- What is the highest and best use for this land? Consider alternative uses: residential, commercial etc.

### Review of Land Title

- Any restrictions on Title? Covenants?
- What services are shown on title? Easements (which you can't build over)?

### Inquiring at the local city council (with a senior planner)

- What guidelines are there upon which a planning proposal for the site might be based?
- What similar development has taken place recently in the area? Any rejected permit applications?
- How long does it typically take to get a planning permit?
- Collect a council planning booklet describing the process and the mandatory periods for advertising, council replies etc.
- Can the planner recommend an architect/draftsman and a planner?
- Heritage issues? Planning overlays? These are not shown on title may affect your development.

### Financial Feasibility

- What do the numbers say? (After entering all feasibility information and costing estimates of the proposed development into a program)
- What would be my best and worst case scenario?
- What profit margin do I need to allow?
- What is the upper limit of my purchase price?

## Land Acquisition

- How is the site to be acquired?
- How long can I make the settlement? Negotiate best terms with the vendor.
- Can I approach the owner directly to do a joint venture or enter into an option agreement?

## Legal & accounting related questions

- Do I have the right legal structure (a Pty Ltd company, or a "Unit Trust") to pursue the development?
- What do my accountant and solicitor have to say? (They need to oversee all the legal and financial commitments you make during the development process... from contracts, joint venture agreements to cash flow analysis of the project.)
- What are the GST and capital gains implications for your proposed scenario? Be careful demolishing any existing buildings.



## Planning Permit Application

### What you need to do

- Prepare concept drawings by an architect/draftsman.
- Obtain comments from local council contact on the concept plans.
- Have your architect/draftsman prepare a full planning application for the site prepared. (Encourage your architect/draftsman to proceed with the application a.s.a.p. Keep close contact and remain alert to any new issues that may arise.)
- Have a field survey of your site by a land surveyor, covering all local features, e.g. trees to be retained, sewer and storm water drainage points, etc. (Forward a copy to architect/ draftsman)
- Sometimes it is helpful to engage a planning consultant to help with complicated planning applications.
- Confirm with the council planner that your application is complete.
- Have a PR strategy to sell your "development proposal " to immediate neighbours, potential objector groups, as well as local city councilors before and during the advertising period. (Visit the immediate neighbours and give them an opportunity to have input, perhaps suggesting some minor amendments. Have copies of plans made to hand out.)
- Secure a report by council planner, a decision of council to grant a permit, or a notice of decision of intention to grant a permit (if there have been any written objectors).

The planning department has a mandatory time in which to check an application and prepare advertising. If there are a number of objections, the council will be presented with a report from the planner and they will vote on your proposal.

## What a planning permit application includes

- Copy of title
- Development plan
- Site analysis and a written planning submission
- Context plan
- Photographs of neighbouring properties
- Relevant reports (e.g. an arborist report)

A planning permit application needs to address all requirements of State and Local government planning authorities.



## Project Financing

### Key Notes

- Determine the most appropriate financing strategy. "Bank Bill" finance, Separate or staged, land purchase and construction loan, residential loans for small developments, commercial loans for larger developments (3 + units).
- Engage a quantity surveyor (required once a project's borrowings exceed \$1,000,000).
- Always check "letter of offer" to make sure the loan asked for is what the bank/lender is offering.
- Ensure that there is enough money at each draw-down to cover non-construction costs, e.g. fees for consultants.
- Identify / secure additional funds and/or funding source(s) for contingencies.
- Prepare a professional "Request for Finance."

### A request for finance should include:

- Details of the previous experience of the borrowers.** Group profile. Other projects, details of how financed and how successful. Personal business details. If more than one borrower, what relationship. If the developer does not have a lot of experience, leverage the experience of the builder.
- Overview of proposed project.** What the development includes, ie: number of dwellings, size, level of specification. Details of any sales off the plan. Local sales evidence of similar recently completed projects.
- Contract of sale for site acquisition.**
- Partnership agreement/details on purchasing entity.**
- Plans and specifications.** Copy of architect's plans. Schedule of finishes/specifications.
- Feasibility.** What is your proposed gross realization or profitability? Is there sufficient data to support or substantiate the end values and feasibility of the project?
- Detailed project budget.** Cost of land through to the breakdown of all building costs. Cash flow report for the project.
- Funds required.** Details of funds required and when.

- Equity contributions.** Where they will come from. Personal? Partners?
- Security offered to lender.** Mortgage over site and/or other properties to the value of 30% of the total amount to be borrowed, e.g. an equity security of \$450,000 required for a \$1,500,000 borrowing.
- Proposed project delivery.** Details and background on building contractor/ other contractors. Copy of the contract with the builder.
- Proposed marketing campaign.** Exit strategy, selling or retaining for rental- refinance. If project is to be all sold, pre-sales and full marketing campaign to be submitted.
- Valuation Reports.** From an approved sworn valuer giving details of the end value of the proposed project.
- Project completion date.** Proposed finish date.
- Current status of project.** Where things are at the time of seeking finance.

## Project Management & Delivery

### Key Notes

- Speed, continuity and quality workmanship are elements you look for when selecting a builder.
- Appoint a builder/manager with a good track record. Or have an advisor with experience and the proven track record if you are self managing.
- Maintain good lines of communication with all involved in the building process and stay on top of things at all times
- Exercise problem prevention rather than fire fighting. Solve problems as they occur. Do not allow problems to escalate.

### The builder and the building contract:

- Have architect/draftsman complete most cost effective working drawings.
- Review the working drawings with your builder for cost and time efficient construction. Revise if necessary.
- Do your due diligence on the builder before you sign anything.
- Provide the builder with fully detailed working drawings and detailed finishes/specifications schedules for quoting the project.
- Ensure that the contracts prepared fully cover the scope of work and as far as possible are of a fixed price nature. Ask the builder to quote for any work to be completed outside of the contract in a "variation to the original contract."
- Have penalty clauses in the contracts to cover the cost of delays
- Schedule regular site meetings. Detailed meeting notes to be made at those meetings and distributed to all who attended.
- Perform a check for each stage or when the builder claims under his contract.



## Subdivision of the property

- Building set out based on working drawings.
- Have the surveyor prepare and lodge to the local council a proposed plan of sub-division. This is necessary for selling off the plan, i.e. sales before you start construction.
- The surveyor will contact all relevant authorities
- All council and authority fees to be paid.
- Keep track of the surveyor's progress in having the plan certification completed.
- Lodge certified plans at the titles office
- Complete project and obtain statement of compliance for issuing of titles.

## Project Marketing

- Marketing needs to be organized and well timed if properties are sold. (especially if pre-sales are required by financiers.)
- Do as much market research as you can. Visit other developments, ask questions.
- If marketing by yourself, be professional when preparing your marketing materials.
- Use multiple agents for large projects. Do your due diligence on the agents.
- Sworn valuations need to be obtained for properties you wish to keep.

## What next?

I highly recommend you visit my website at [www.smartpropertydevelopment.com.au](http://www.smartpropertydevelopment.com.au) and seriously consider attending an upcoming Property Development Workshop in a capital city near you. As a fortaste of what you can expect at one of my workshops, be sure to view my FREE presentation (look for the link on the frontpage of my website). I hope to meet you at a workshop one day soon!

— Peter Comben