Thinking of becoming a developer?

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 some one who knows what the development game is about, where pitfalls lie, and what needs to be done to prevent them.

This “Development Checklist” was 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 more detailed understanding of the development process. I recommend you attend our 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?
- What is the orientation of the site?
- What will fit? What will the planning codes allow? (You need a working knowledge of the planning codes)
- Are there trees?
- Where are the services on the site and what new connections need to be made?
- How will my development affect street character?

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?
- Can the planner recommend an architect/draftsman?

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?
- 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.)
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)
- 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 plan 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 submission
- Context plan
- Photographs of neighbouring properties
- Relevant reports (e.g. an arborist report)

A planning permit application needs to have met 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?
- 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.)
- 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.)
SMART PROPERTY DEVELOPMENT
DEVELOPMENT CHECKLIST

- 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 project manager with a good track record. Or have an advisor with 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:**

- Provide the builder with fully detailed working drawings and detailed finishes/specifications schedules for quoting the project.
- Do your due diligence on the builder before you sign anything.
- 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.
- 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 subdivision.
- Contact all relevant authorities.
- Keep track of what the surveyor’s progress in having the plan certification completed.
- Lodge certified plans at the titles office.

**Project Marketing**

- Marketing needs to be organized and well timed if properties are sold. (especially if pre-sales are required by financiers.)
- 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.

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