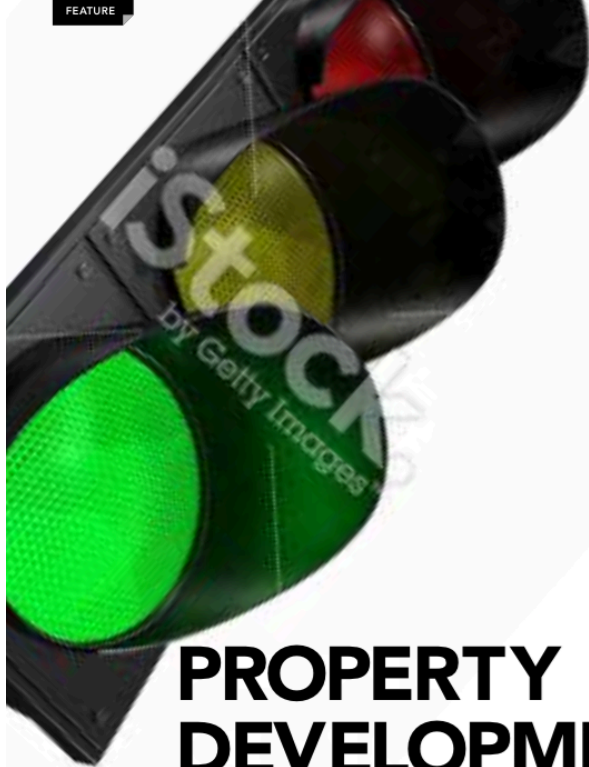


# PROPERTY DEVELOPMENT

S Y S T E M

[www.PropertyDevelopmentSystem.com.au](http://www.PropertyDevelopmentSystem.com.au)



# PROPERTY DEVELOPMENT DUE DILIGENCE

ONCE YOU'VE DONE YOUR DUE DILIGENCE, WHAT  
FACTORS WOULD MAKE YOU WALK AWAY FROM A  
PROJECT AND WHAT FACTORS WOULD MAKE YOU STAY?

AMBER KHANNA

## Warren Buffet

- “It’s better to be approximately right than to be precisely wrong”.

# Property Development System

## Preliminary Assessment (DD)

- **Who will buy** the end product? (Owner Occupier / Investor / Rent out)
- What's already being **built in the neighborhood**?
- Who are the **builders** operating in that area?
- What is the **design intent** in the local area? This is determining what kind of townhouses or units are being designed in your area.
- What is the **demand** for such designs in your area?
- What would be the **end value** of townhouses/apartments?
- What is the **rent** in the current market for a new townhouse Vs an old property?
- What are some **comparable sales** in the area?

# Location

The 3 main things that I look for when considering a potential site are:

- **Public Transport**
  - Is the site close to trams, train stations, bus stops, free ways, highways etc? Everyone needs to go to work, & most Australians still rely on public transport to commute to work. The closer your development site is to public transport, the quicker you will be able to sell it, at the end of your development.
- **Schools & Education facilities**
  - young families prefer to live close to schools. Again, this could mean *shorter days on the market*, when selling your newly developed townhouses.
- **Activity Centers**
  - shopping areas, shopping centers etc all fall under activity centers. Everyone needs to buy groceries, so if you are close to a supermarket it's a bonus and if you are close to a major shopping mall, or school, it's a double bonus as long as you are developing a product that's in demand in that area.

## Time to Walk Away

- Do not look for a development site in *whoop-whoop ville*, unless you know what you are doing and have had some experience under your belt.
- As a novice developer, don't try and be the first in an area. Council can hit you with a lot of unnecessary infrastructure upgrades, which can kill the deal.

# Demographics

- Determine the population & future growth of the area
- Find out the age group of various house holds
- Most Importantly: Does the suburb mostly consist of owner occupied properties or is investor driven?

## **Time to Walk Away**

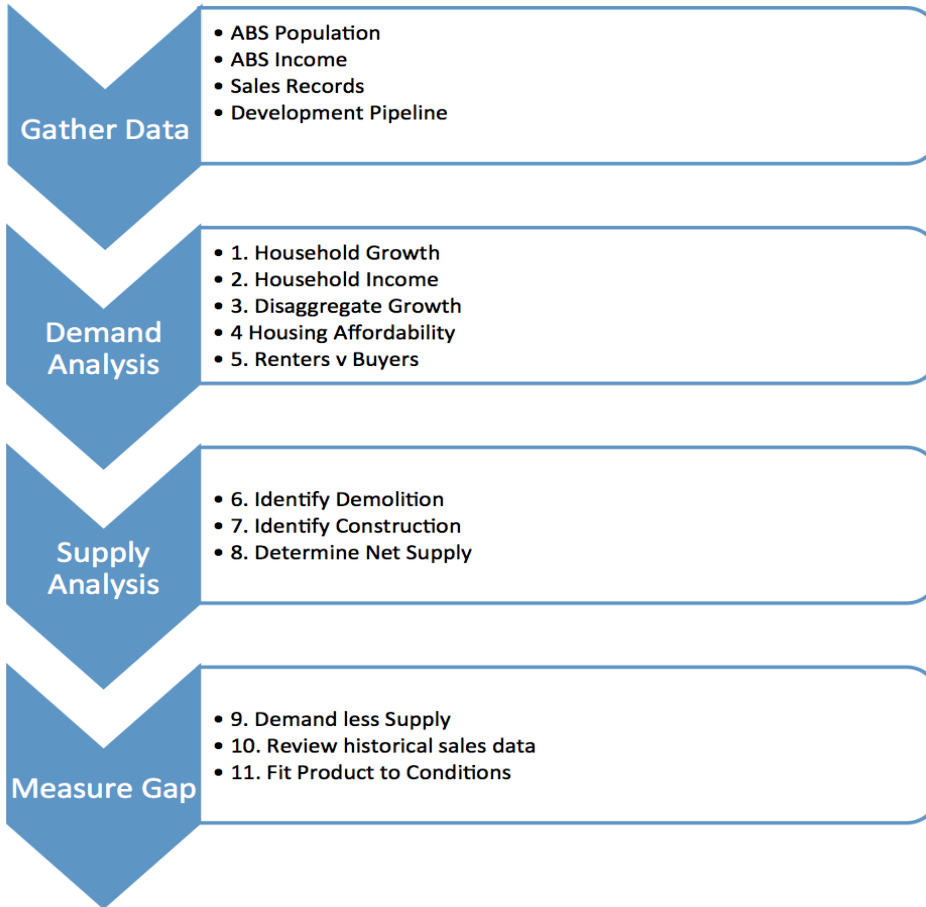
- If during your due diligence you find that the suburb consists mainly investment properties i.e. not a lot of owners live there themselves, stay clear. This has happened many times with mining towns.
- If for some reason you see a decline in population in a suburb over past years, find out the reason why before you invest in that suburb.

# Gap Analysis

- Simply put, GAP Analysis is the **difference between the demand and supply of the product** you are looking to develop in that area. It is also about understanding the market drivers.
- By determining
  - household growth,
  - income,
  - affordability,
  - comparing renters vs buyers,
  - you can determine the demand in a particular area. You then compare this data with the council's pipeline data for development applications.

## Time to Walk Away

- If your demand is low and you see a huge list of development applications on your councils website, it's time to walk away.
- You come across a site for sale with plans and permits for 2 bedroom townhouses & your GAP analysis shows that the demand is for 3 bedroom townhouses, as the suburb is dominated with young families. It's the wrong product fit for that market & it's time to walk away.





# Post Selection Process

# Highest Best Possible Use

- Is about maximizing the development capacity of land or property, while playing under the rules of res-codes, zoning & overlays.
- Determining what the number of units/townhouses/apartments you can fit on a block of land, in order to make the development viable.

## Time to Walk Away

- Don't become adamant about pushing the boundaries with council, just because your feasibility does not show a profit with 4 townhouses. Don't try and squeeze in a 5th one, it will only delay your application and you could end in VCAT or waiting for your planning permit for eternity.

# Physical Characteristics

- **Zoning & Overlays**
  - Is your proposed site correctly zoned? Usually for residential developments, you ideally want your site to have residential zoning.
  - Examining restrictive overlays is extremely important. Some overlays are pro development and can mean smooth sailing for your planning permit application.
- **Size** – Is the size enough to accommodate four townhouses or apartments etc.
- **Frontage** – Is the frontage wide enough for your development. You may have a fairly large site with a narrow frontage, making it unsuitable for your proposed development.
- **Site Contour** – A sloping site could mean more construction costs.
- **Flooding or Bush Fire Zones** - Is the site affected by Flooding or does it fall under a Bush Fire zone? Will that have an effect on the yield or hinder the development potential of the site?
- **Local Authority** – is the local council supportive of the proposed development? Have a preliminary meeting with your council's town planning department to gauge their attitude towards the proposed developments.

# Physical Characteristics

- **Time to Walk Away**

- VPO – Your site has lots of trees & falls under VPO (vegetation protection overlay) & you cannot put your desired dwellings without knocking the trees down – walk away.
- Site History – Research into the previous use of the site.
- For example, ask yourself depending upon previous use of the site, could the site have asbestos buried under the soil? Or depending upon previous use, could the soil be contaminated in anyway?
- If the answer is yes – you either walk away or find further information.

# Land Value

- Land value is a crucial component when conducting a financial feasibility. Usually, everything remains constant, including professional fees, construction value, permit fees, selling costs etc. The only two variables in a feasibility study are land and end sale value. Just because you have paid more for land, does not mean that you can get more for your developed product.

## **Time to Walk Away**

- Let's look at a hypothetical scenario. You are considering buying land to develop 4 x 3Bedroom townhouses. You have determined that they sell for \$530,000 in your suburb. However, the vendor is asking for \$600,000 for his land. Which pushes the price of land to \$150K for each townhouse.
- Now if you do your numbers right, you will notice that in order to allow for all costs and for you to make profit on this deal, you really need to sell these townhouses at \$575,000. However, the market does not allow that, as the current sale value sits at \$530K for your townhouses.
- In essence, you should be paying only \$120K per townhouse for land to make your margins, which justify the end sale value of \$530K.
- It's time to walk away as the asking price of land is too dear.

# Legals

- This is where you hire a professional lawyer/conveyancer to help you out. They particularly look into Section 32, security deeds or caveats on land, they conduct property searches, boundary line or party wall agreements & restrictive covenants. Usually, even before you go to a lawyer, an agent will flick you a copy of section 32.

## Time to Walk Away

- If you find covenants in your section 32, for example, a single dwelling covenant or any other covenant that restricts you from maximizing your site, it's time to walk away.