



# Understanding Financial Feasibilities

## Module #2



# Objectives

- Constraints – Highest best possible use
- 4 reasons why your competition would be willing to pay more for the same land / site?
- Most Important Concept – FF
- Purpose of conducting financial feasibilities
  - Lenders
  - Developers
- 3 Types of Financial Feasibilities



# Financial Feasibility - Theory

- Property Development Financial Feasibility
- Development Appraisals
- Development Pro-Forma

# Information

- Costs
- End Value





# Purpose

## 1. Determine the Value of the land

### – What should you pay for the land?

- Highest Best possible use of the land – based on it's zoning and the planning controls it falls under.
- How high you can go? i.e. the maximum height for your development.
- Essentially the value of land will change based on what you can fit on it – which is determined by the local planning scheme or controls.
- Is there anything else on the land that you can sell?
  - Rock
  - Trees
  - Old House
  - Sand
  - Clay
  - Gravel
- Will the end product sell at a price you think after it is complete?
- Will paying X amount of dollars for the land justify the end value of the townhouse at Y price?



## Purpose: Determine the Value of the land

4 reasons why your competition would be willing to pay more for the same land:

1. They know more than you do? i.e. they have determined the highest best possible use of the land better than you have.
2. They know that they can sell the end product higher than what you can think you can.
3. They have the right costs in their feasibility or they can build it cheaper.
4. They are delusional. More often than not – if you have spent the time and done this course, you will find that your opposition is in fact delusional.

# Purpose: Determine the Value of the land



GRV	\$500,000.00	\$500,000.00	\$500,000.00	\$500,000.00	\$500,000.00	\$500,000.00	\$500,000.00	\$500,000.00	\$500,000.00
Land	\$120,000.00	\$130,000.00	\$140,000.00	\$150,000.00	\$160,000.00	\$170,000.00	\$180,000.00	\$190,000.00	\$200,000.00
Construction	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00	\$260,000.00
Consultants	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00
Council 4% of Land	\$4,800.00	\$5,200.00	\$5,600.00	\$6,000.00	\$6,400.00	\$6,800.00	\$7,200.00	\$7,600.00	\$8,000.00
GST	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,001.00
Marketing @2.5%	\$12,500.00	\$12,500.00	\$12,500.00	\$12,500.00	\$12,500.00	\$12,500.00	\$12,500.00	\$12,500.00	\$12,500.00
Misc	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00
Finance	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00
<b>TDC</b>	<b>\$432,300.00</b>	<b>\$442,700.00</b>	<b>\$453,100.00</b>	<b>\$463,500.00</b>	<b>\$473,900.00</b>	<b>\$484,300.00</b>	<b>\$494,700.00</b>	<b>\$505,100.00</b>	<b>\$515,501.00</b>
<b>Profit</b>	<b>\$67,700.00</b>	<b>\$57,300.00</b>	<b>\$46,900.00</b>	<b>\$36,500.00</b>	<b>\$26,100.00</b>	<b>\$15,700.00</b>	<b>\$5,300.00</b>	<b>-\$5,100.00</b>	<b>-\$15,501.00</b>
<b>Dev Margin</b>	<b>15.66%</b>	<b>12.94%</b>	<b>10.35%</b>	<b>7.87%</b>	<b>5.51%</b>	<b>3.24%</b>	<b>1.07%</b>	<b>-1.01%</b>	<b>-3.01%</b>
		2.72%	2.59%	2.48%	2.37%	2.27%	2.17%	2.08%	2.00%
			5.31%	7.79%	10.15%	12.42%	14.59%	16.67%	18.67%

**Avg Reduction** 2.33% for every \$10K Increase in Land Value.

# Purpose: Determine the Value of the land



		2.42%	2.36%	2.30%	2.22%	2.25%	2.15%	2.10%	2.09%
<b>GRV</b>	<b>\$500,000.00</b>	<b>\$512,385.30</b>	<b>\$524,744.75</b>	<b>\$537,094.21</b>	<b>\$549,285.03</b>	<b>\$561,911.84</b>	<b>\$574,251.53</b>	<b>\$586,578.09</b>	<b>\$599,088.55</b>
Land	\$120,000.00	\$130,000.00	\$140,000.00	\$150,000.00	\$160,000.00	\$170,000.00	\$180,000.00	\$190,000.00	\$200,000.00
Construction	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>	<b>\$260,000.00</b>
Consultants	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00
Council 4% of Land	\$4,800.00	\$5,200.00	\$5,600.00	\$6,000.00	\$6,400.00	\$6,800.00	\$7,200.00	\$7,600.00	\$8,000.00
GST	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00
Marketing @2.5%	\$12,500.00	\$12,809.63	\$13,118.62	\$13,427.36	\$13,732.13	\$14,047.80	\$14,356.29	\$14,664.45	\$14,977.21
Misc	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00
Finance	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00
<b>TDC</b>	<b>\$432,300.00</b>	<b>\$443,009.63</b>	<b>\$453,718.62</b>	<b>\$464,427.36</b>	<b>\$475,132.13</b>	<b>\$485,847.80</b>	<b>\$496,556.29</b>	<b>\$507,264.45</b>	<b>\$517,977.21</b>
<b>Profit</b>	<b>\$67,700.00</b>	<b>\$69,375.66</b>	<b>\$71,026.13</b>	<b>\$72,666.86</b>	<b>\$74,152.90</b>	<b>\$76,064.04</b>	<b>\$77,695.24</b>	<b>\$79,313.63</b>	<b>\$81,111.33</b>
<b>Dev Margin</b>	<b>15.66%</b>	<b>15.66%</b>	<b>15.65%</b>	<b>15.65%</b>	<b>15.61%</b>	<b>15.66%</b>	<b>15.65%</b>	<b>15.64%</b>	<b>15.66%</b>

2.23%      Average





## Purpose

It is imperative that you conduct your financial appraisal of the site diligently.



## Purpose

1. Determine the Value of the land
2. Profitability or Project Viability
  - Does the project stack up?
  - Does it make financial sense?
  - Does it have good returns?



# Purpose

1. Determine the Value of the land
2. Profitability or Project Viability
3. Used by Lenders
  - Is the project viable from the lenders perspective?
  - Are the assumptions made by you (the developer) have any legs or backed by research?
  - Are projected costs verified?
  - Are projected sales achievable?
  - Are the assumed costs realistic?
  - Is the project TIMELINE achievable?
  - What is the marketing plan? Can the developer sell / lease the stock being developed?
  - All these questions will be verified by the lender in light of the current market conditions.



# Purpose: Lenders

- Once satisfied the lenders will then look into:
  - Profit Margin (Development Margin on Cost)
  - Entrepreneurial Risk Margin
- **No fixed rule of thumb from lenders perspective**
  - Different Lenders will look at different Profit & Risk Margins & adjust their exposure depending upon various factors:
    - Project Timeline
    - Developers Credentials & Experience
    - Developers Financial Background
    - Feasibility Assumptions
    - Project Related Site Value / Residual Value of Land
    - Type of Development & Market Conditions



## Purpose: Lenders

- No fixed rule of thumb from lenders perspective
  - And will compensate themselves i.e. mitigate their risk using any or all of the measures below:
    - Interest Rate
    - Finance setup costs
    - Lock in periods
    - Pre-Sales or Pre-Letting
    - Personal Guarantees & other collaterals



# Purpose

1. Determine the Value of the land
2. Profitability or Project Viability
3. Used by Lenders
4. Used by Developers
  - Variations to Highest Best Possible Use
  - Different Scenarios (3 Bedroom Vs 2 Bedrooms, mix of both, what proportion, apartments or townhouses etc)
  - Sensitivity Analysis (longer timeline, longer payback period, higher holding costs, market conditions, price drops, cost blowouts, contingencies etc.)



# Three Types of Financial Feasibility

## 1. Two-Minute Feazo

- Initial Viability Study
- Back of a Napkin feasibility
  - Does the project work.
  - Based on past averages & ball park numbers.
  - Used to quickly determine the need to dig further.
  - Quickly determines profitability and basic metrics.
  - Do the GRV (Gross Realisation Value) or total sales cover total costs i.e. TDC (Total Development Costs).
  - Requires knowledge of basic foot prints of dwellings that you intend on developing, so you can incorporate a guesstimate of the highest best use of land.
  - Based on broad strokes only.
  - The more details that you can add to it, the better number it can deliver.



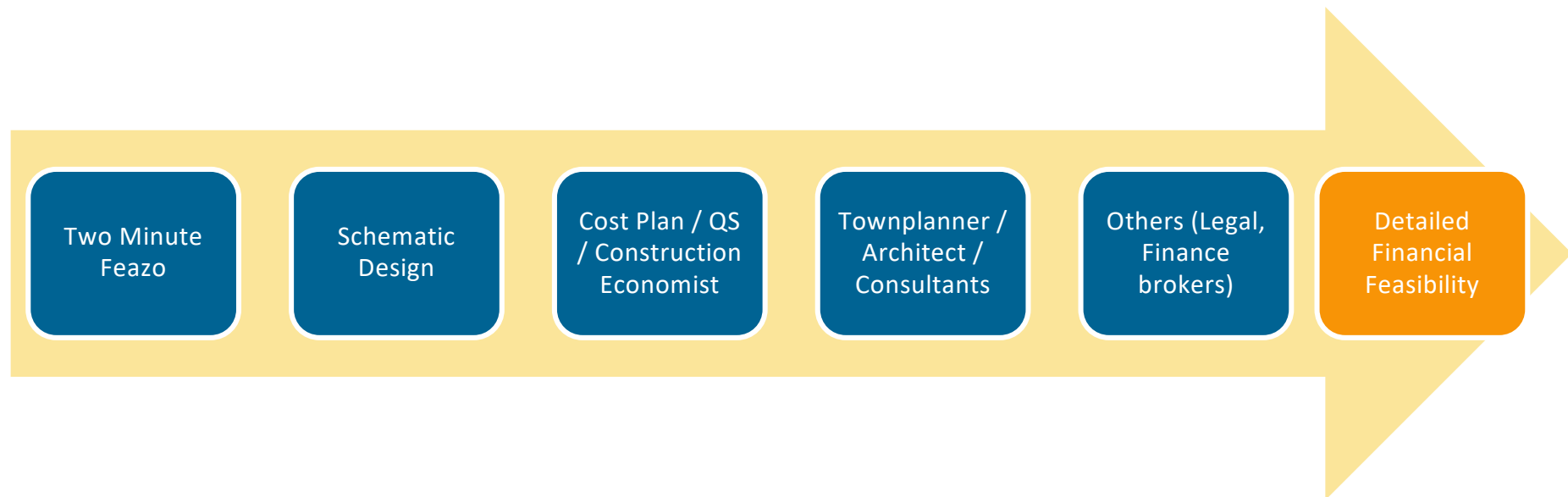
# Three Types of Financial Feasibility

## 1. Validation Feaso (Two-Minute Feazo)

- Basically gives a
  - Yes – Dig Further
  - No – Dead in Water
  - Yes = Move to Next Stage, which costs more



# Two-Minute Feaso





# Three Types of Financial Feasibility

1. Validation Feasibility (TMF)
2. Full Scale Feasibility – (FSF)
3. Project Tracking – Real time Project Tracking