LeadDeveloper

Ultimate Guide To Getting Started In Property Development

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Ultimate Guide: How To Get Started In Property Development?

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Ultimate Guide: How To Get Started In Property Development?

There is a common belief that property development requires a lot of money and comes with inherent risks. Well, yes and no. Driving is also risky as there are no guarantees that you'll never be in an accident, even if you are following the rules to the letter. Then what do you do... stop driving. Risks are inherent with any entrepreneurial endeavour.

Property development is exactly that - entrepreneurial. You have to take risks, solve problems, find solutions and keep going. However, property development is a lot easier than running a business. Specially if you choose your strategy carefully, take calculated risks, don't make property development mistakes in your projects and always have a buffer. This is the ultimate guide on how to get started in property development. In addition, you can also download our Property Developer Blueprint & don't forget to checkout why investors fail at property development?

How To Get Started In Property Development?

Forget about conventional property development courses. Sure, they'll teach you about some of the nuts and bolts and what is involved in property development, but there's a whole lot more that is required for you to know before getting started in property development. It is not just what? But the exact How to become a property developer?

Our Property Developers Course - Property Development System, on the other hand, takes a much more holistic approach, providing novice developers with a complete step-by-step guide to development, from start to finish, that any beginner can follow. Property Development System mimics the way an actual development project unfolds.

Conventional property developer courses dictate that there are only five stages in the property development process:

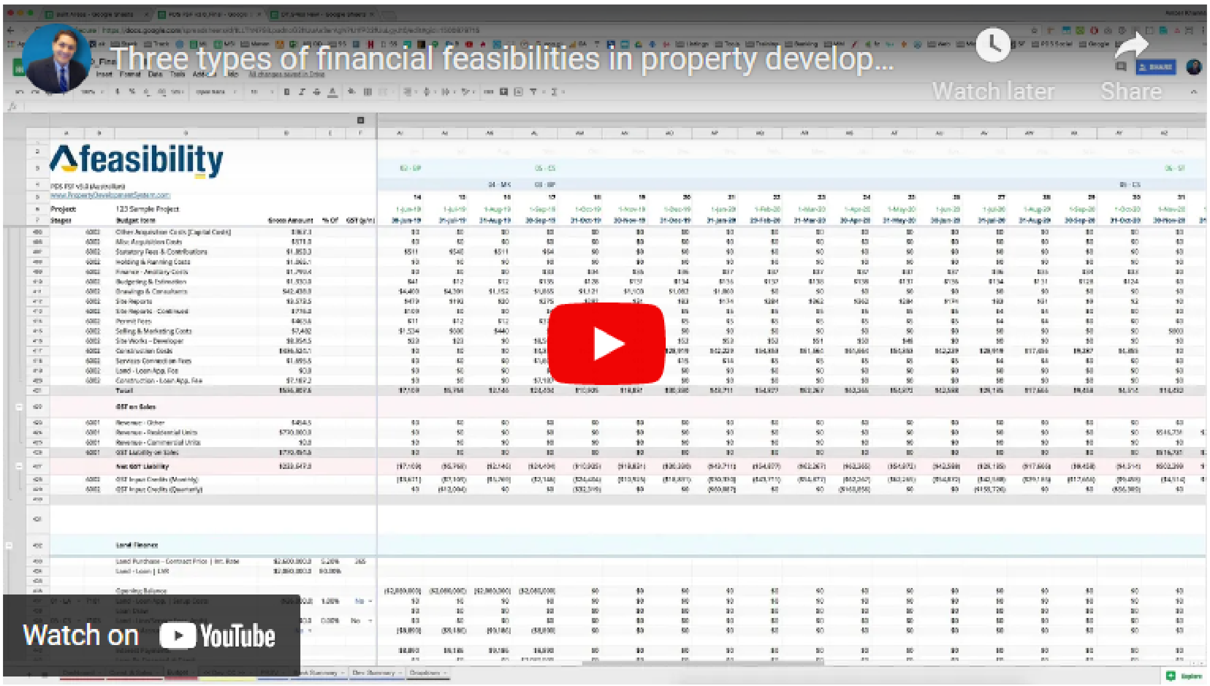
1. Vision
2. Concept
3. Consultants
4. Construction
5. Completion

As you can see, this starts with a vision of what you will do with a site, without telling you how you're going to find and acquire that site so you can have a vision in the first place.

There are many more steps beyond the five basic stages that are essential for every property developer to take if they want to successfully execute a development project on time and under budget.

My flagship property development course called Property Development System looks at how to get started in development, beginning from making the decision to be a developer.

Getting Started In Property Development With Financial Feasibilities



The Right Mindset Required For Getting Started In Property Development

The property development process starts well before you even secure a site and can formulate a vision or concept about the type of project you want to undertake. Unfortunately, most property investment courses or property development courses out there are dictated by marketing firms and their marketing is slick enough to make newbies believe that the only thing standing between them the riches is their “property development course”.

However, before you enrol yourself in any property development course, you first need to determine whether property developing is for you, and to do that you need to identify what type of person you are.

To be suited to property development you need to be prepared to commit to the process fully and decide you’re going to forge ahead no matter what happens. You’ll do whatever it takes to make it a success.

If you don’t have this mindset you’ll quit halfway through, which will be a waste of your time and money. You also need to have an appetite for risk and be willing to embrace uncertainty, as you’ll experience both in property development. Anytime you are uncomfortable with uncertainty, remember this, what you think is SAFE is risky. That job that you have is anything but SAFE. Your internal growth is not in the safe house, it’s out there & will happen when you challenge yourself and embrace uncertainty.

Some people embrace risk because it keeps them on their toes and pushes them to work hard, but a lot of people don't like that sort of pressure.

If you don't like that sort of pressure, but only want your money to work for you, check out our Property Mogul section by clicking here.

In A Nutshell, Property Development Is All About Becoming Comfortable With Being Uncomfortable.

For those who wish to learn property development themselves and still want certainty to a degree, you should check out the various property development courses available on this website.

And for those of you who have been brainwashed with slick marketing about property investment and how they will get a pay cheque in their pocket every month, property development is not going to be a suitable vehicle for you in the short-term. When I say short-term, I mean the time it will take you to turn over at least 2-3 development projects, depending upon where you are starting from in the property development journey. If you are starting from nothing, it may take up to 4 projects before you can start seeing the fruits of your labour or if you are starting from a good position, it may even take you less than 2 projects to starting generating passive income from your "Develop and Hold" strategy.

Property Development In The Short Term Will Not Give You Cash-Flow, However, Property Development Is The Fastest Way

To Generate Wealth Via Property, Create Passive Income Safely And Exponentially Grow Your Property Portfolio.

You might be thinking that I am contradicting myself, in the statement above. I am not. I am only trying to show you what the reality is. Let me explain, depending upon, the kind of project you are in, it usually takes about 12-24 months to turn over your first project. For that duration, a developer needs to fund and service the project's equity requirements – so there is no cash-flow during that period. However, the moment you complete your development, you get windfall profits which surpass any modest or high paying salary and are far greater than any "Buy and Hold" capital gain, that you can enjoy within 12-24 months. So, depending upon your personal starting financial position, it may take you anywhere between 12-60 months to achieve financial freedom via property development. If you consider only 5 years to financial freedom, isn't it the shortest amount of time to generate wealth and achieve financial freedom? So would you consider knowing the right system and the steps and having the complete knowledge to find and execute profitable property development projects valuable? If your answer is yes, then continue reading the rest of this article.

Many property investors indeed do not adopt this mindset and are overcome with fear, which is why more than 70% of investors fail to get past their first property.

Knowledge Is Power

Once you have established that you have – or can adopt – the right mindset and property development is for you, the next step is to get educated. This will help you choose the right site and project, and will significantly improve your profit margin at the end of the day.

Firstly, it's important to get an understanding of the property development industry and the factors impacting upon it. You'll need to understand the fundamentals of property economics including new government policies, interest rates, the inflation rate, unemployment rate, population growth, the house price index and the Australian dollar.

Novice developers don't need to be professional economists but it's important to have at least a rudimentary understanding of these things to make more informed decisions and predictions.

It's also crucial to understand statistics and listen for signals indicating a potential change in the market – these can come from the media or the property market cycle, for instance, – and again, can help developers make the most educated decisions.

3 Basic Stage Of Property Development

Development projects require teamwork, proper organization, and a lot of patience. Before the first shovel goes into the ground, any real estate project requires extensive preparation and legwork.

To plan and execute your next development project flawlessly, you need to understand the three main phases of property development.

- Pre-development - the riskiest phase of a project, accounts for only 5 to 15% of total costs.
- Development - Construction in the development phase accounts for 80-90% of total project costs.
- Close-out and operations - include the work post-development. It consists of marketing, leasing, and other management tasks. The last stage of property development accounts for only 5 to 8% of project costs.

Recommended Reading: Property Investment Strategies

Stage 1 – Pre-Development

The pre-development phase is where the most important ideas and plans behind the project are developed and finalised.

It's one of the most time-consuming stages of the property development process because you'll be planning, strategising and structuring your project here.

Begin by conducting a thorough evaluation of your property. You may have done this at the time of your purchase, but you will now do it differently. Put another way, you must examine the property with a critical eye to determine how you can add value.

80-90% of the project's value is created during pre-development. The developer acquires land, develops the project and secures financing commitments. The tasks performed in pre-development shape the subsequent phases, such as the tactics employed to respond to market and funding environment changes. Raise and address any issues you see so you can deal with them before you start the actual development.

Don't worry if you're confused or have doubts; these are signs that you're attempting to figure out you're the potential of your project.

In property developer FAQs, I attempted to address queries often raised by novice developers.

Understanding The Market

Understanding the market is crucial as it forms the basis for all your assumptions used in your project feasibilities.

For instance, while investing, you will consider costly markets with low cap rates that give you stability but lower returns. While for more risk and more significant returns, you will consider less expensive secondary or even tertiary markets with higher cap rates.

Finding And Vetting A Property

Once you have developed sufficient knowledge of the real estate market, it is time to find and vet the property. While vetting the property, you will need to pay attention to zoning policies of the local government, tenant agreements, design & construction.

Stage 2 - Development

Even though the development phase has high project expenditures, the outcome primarily depends on the quality of the pre-development work.

You're more likely to have problems during construction if you don't complete your pre-development work seriously.

If the developer has managed the pre-development tasks well, competent management and funding can control the risks during the development stage. Following are some issues that can delay or derail your project during the development phase.

Unexpected Site Conditions

Poor soils, hazardous materials, and archaeological artefacts can be discovered during construction. This is due to the preliminary site analysis. These conditions can lead to costly delays in remediation and archaeological research. This may result in redesigning the project, which could cause higher-than-expected costs and a threat to project viability.

A Sudden Increase In The Cost Of The Material

Prices can vary depending on the market for materials. The timing of construction material orders such as concrete and steel may have an impact on their costs. An optimal ordering strategy is possible by monitoring material costs to get the best pricing.

Expensive Design

There is no doubt that the design of your development can affect the cost. A high-rise condominium project with many units may have higher construction costs than anticipated. This could lead to delayed delivery and increased construction time. You can avoid this problem during pre-development by working closely with the architect, contractor, and marketing consultants. The goal is to streamline the design process and reduce construction time.

Change In Market Conditions

A project may fail if there is a sudden drop in the market of buyers and tenants. It is difficult to observe and understand the frequent changes in the market. To save yourself from any such issue, I recommend looking at the market conditions before starting your development project. Make sure to have contingency plans before starting your projects to better respond to possible changes in the market conditions.

To avoid the above issues, a property developer must work with a team of professionals. It may include contractors, engineers, marketing and financial experts, etc. You can bring your real estate projects to fruition with a well-engaged property development team.

Stage 3 - Close-Out And Operations

After developing a building, you will be left with two primary choices. The first is to sell the building and the second one is to allow businesses to lease and manage the asset.

If you plan to lease and manage the property, you need to have some clients lined up. If the site is large enough to accommodate an anchor store or many business tenants, you should have them lined up already.

To prepare a proper close-out strategy for your project, you should understand customers' profiles, funding requirements, and characteristics. You can minimise the time and capital involved in the project by opting for close-out strategies - plan to start the pre-leasing, pre-sales, or passive marketing campaigns as soon as possible.

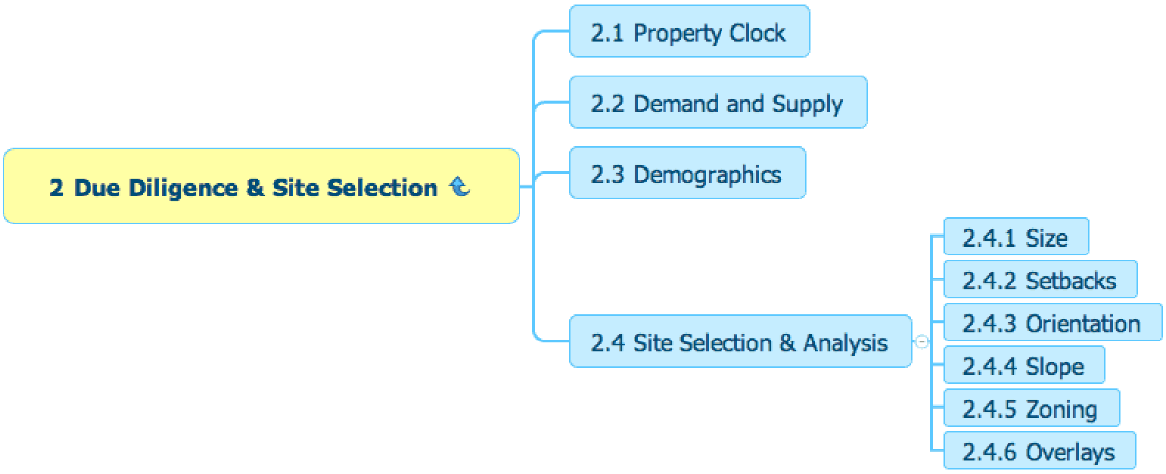
A critical aspect of the close-out and operation phase is "Asset management". It begins when the construction is completed. The property is your responsibility. You must maintain it, make repairs and keep it in good repair. This is the time when you will be responsible for all taxes, loans, and any other fees, regardless of whether the property is making money.

If you want to sell the building, you will be able to make quick money. This also allows you to jump right onto the next project.

Bonus tip for every successful property development project -

- Effective communication is essential.
- Maintain a code of honour.
- Don't make hasty decisions.

Due Diligence & Site Acquisition Process - Getting Started Guide



After getting educated on the property market and the factors driving it, developers should then look to undertake thorough research to determine where and what they will buy. Read More about Property Development Due Diligence Checklist, site acquisition process as well as property options.

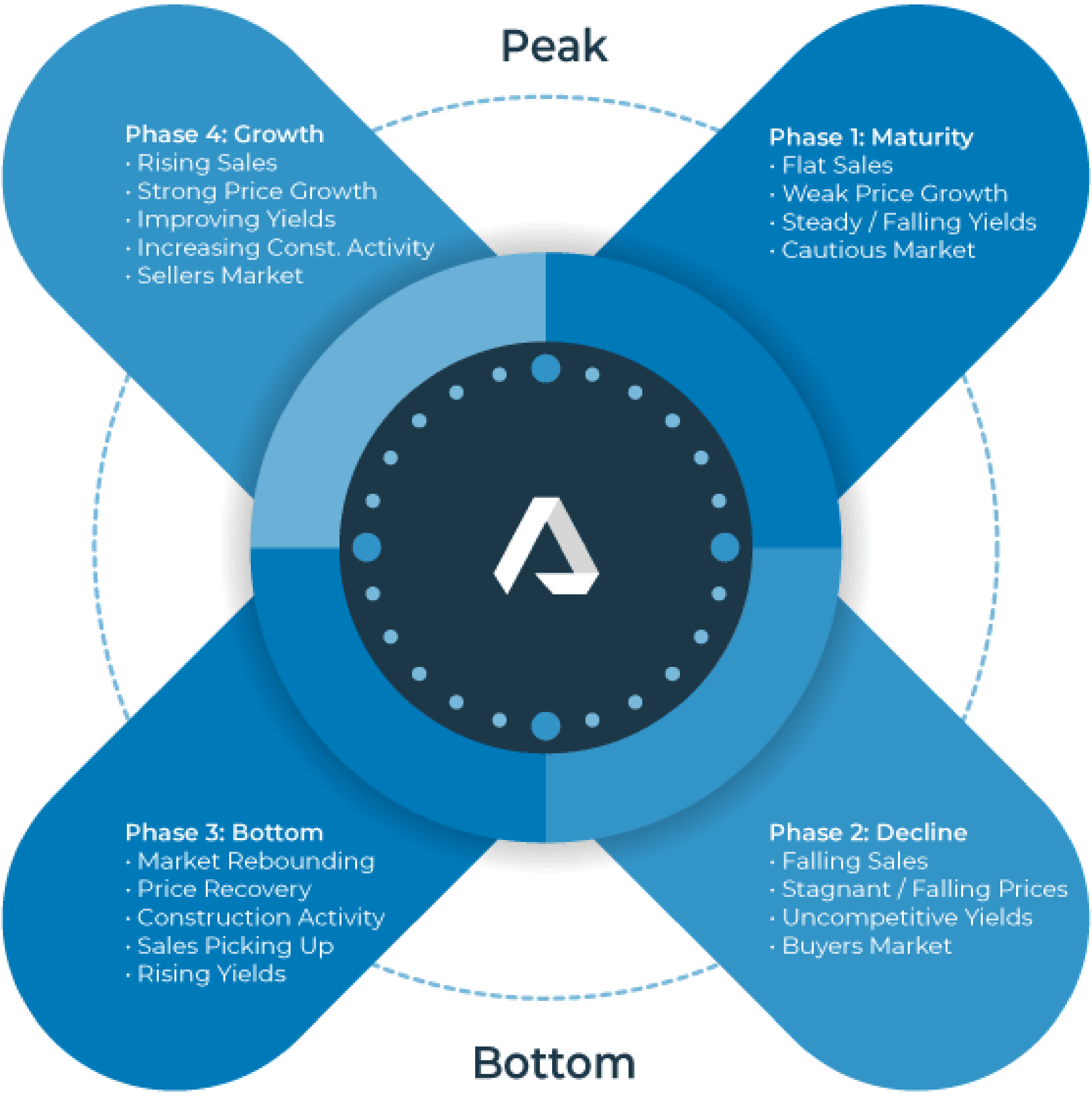
Location, Location, Location

When it comes to property investing and developing, selecting the right location and property is crucial. The old adage of 'location, location, location' still rings true; it's one of the most important factors to get right as it really can make or break a development and your profit margin.

Ideally, you'll pick an area to buy in that is either heading into an upward growth cycle or is in the early stages of one, so you can benefit from this growth. This will also help to determine what you should do on completion of the project, such as selling to realise a profit or holding onto your assets, or even whether to increase your debt to develop again.

An area that is up-and-coming, or a 'hotspot', is often one where a new major announcement has been made, such as a new infrastructure project, which will attract more people to the area. Another good indicator is an area that is surrounded by other blue-chip suburbs but is still seen as a less desirable area, albeit improving.

Property Clock



The property clock gives a good indication of when it's the 'right' time to buy in any given market. At the bottom is when you should borrow more to invest in areas primed for growth. Property is more affordable, but prices can't fall any further, and the market starts to pick up again and prices begin to recover. The next phase – the growth phase – is a vendor's market, which is the time for property developers to be aggressive. While these are the ideal times to be investing and developing, it's virtually impossible to pick the market and determine where the bottom, recovery and peak is, until it's in hindsight. See property market cycle.

For developers, there is no perfect time to buy – if a deal stacks up, it stacks up – but certain indicators enable you to make a more educated guess when it comes to which areas are on the upward phase of the growth cycle. (link again to blog).

Since different markets around Australia will be at different phases of the property clock at any one time, you should be aiming to choose one that is growing, or about to, and then you need to drill down to a local level to find a particular suburb and area within the suburb to invest in.

Supply And Demand

Supply and demand will be crucial indicators here. Find an area that has high demand, which will be enhanced due to its proximity to amenities and infrastructure such as schools, public transport and even employment.

Demographics

You'll also need to consider demographics; is the population increasing, with more people moving to the area? Also, consider what type of people live in the area. This will determine the type of development you undertake and what property type is most in demand – for example, if the demographic is dominated by families, houses will be in demand, while if it's young professional's units or townhouses will likely be in demand.

Site Selection & Analysis

After you've identified the location in which you want to buy and undertake a development, the next step will be to choose an appropriate site on which to do your project.

When it comes to property development it's crucial to buy the right to make sure you can undertake not only a development on the site but the right development.

There is a multitude of factors to consider when doing your due diligence in finding a suitable site, but the factors you absolutely must consider before buying include:

- **Size:** How big is the block? The total area of the site must be checked carefully, as a few extra square metres could mean the difference between building three or four townhouses.
- **Setbacks:** A developer won't be able to build on the entire block due to setbacks, so while it's important to consider

the total area, you also need to consider the total usable area. It can vary depending on the density, but for medium-density areas, it's usually around 60% of the total area.

- **Orientation:** Which way is the site facing? Consider factors such as whether the development will allow for a sunny northerly aspect in the backyard, which is desirable to maximise light, and how it can maximise views. Also, avoid negatives such as a site that faces traffic or doesn't allow for privacy.
- **Slope:** When it comes to topography, the ideal site will be flat with a slight fall allowing for stormwater run-off. A sloping site will cost more, as expensive retaining walls should be accounted for.

Other crucial factors to consider under site acquisition process – as they may restrict the development potential of the site – include:

- **Zoning:** Zoning is a planning control that allows local councils to determine the appropriate use of land. Check the planning issues and the local council's current zoning to determine if your proposed development is allowed and whether there are any old development consent conditions that apply.
- **Overlays:** An overlay is an additional layer of planning control that allows the local council to determine the type of development that occurs. If your property has one you may be required to adhere to other conditions and comply with certain restrictions. You should look into council overlays that govern the site before you get into the project.

Financial Feasibility - Getting Started In Property Development

Getting started in property development requires that you have a strong grasp of property development feasibility. You should know how to conduct a quick feaso using a feasibility calculator as well as a detailed property development feasibility using a feasibility software.

When you've found a site that you think is suitable for development, and you've got a vision for the type of development you want to undertake on that site, you will need to determine if the project stacks up from a financial point of view.

How do you do that? You conduct a property development feasibility study analysis, considering all the costs of the development, including the purchase price of the site, as well as the gross realisation value (GRV) – or the selling price – of the end product to determine what your profit will be.

Conducting a financial feasibility study is one of the most important steps in the development process as it will determine whether you will, in fact, make a profit and if so, what your profit margin will be.

There's no point in undertaking a development and spending precious resources, including your time and money if the profit is not going to be worthwhile. Even though the potential development site might tick all the boxes including being in a great location, being the right size and having the right zoning, a development on it still might not stack up financially, so it's essential to crunch the numbers before you buy. Don't jump in head first; careful planning is needed in development because the risks are much greater than undertaking a buy and hold strategy.

Calculating Your Development Profit

There are no set profit margin developers must make from a project, but as a general guide, many aim for at least 15% to 25% (and lenders may require this). You'll need to determine the profit margin you're comfortable with, and in doing so it's important to consider what you are going to do with the product upon completion.

If you're going to hold on to your developed property as an investment, you need to consider the equity you'll have in the property, as well as rental returns.

The most important concept developers need to grasp when conducting a financial feasibility is that the price you pay for the development site is going to determine your profit upon completion of the project. The key, therefore, is to buy the land at the right price.

Usually, everything remains constant except for the land value and GRV. The constants include costs such as professional fees, construction, permits and selling costs.

Just because you have paid more for your land does not mean that you can get more for your developed product. The market will determine what the end value is and buyers won't pay more simply because you need to make your predicted profit.

If you overpay you'll need to recoup that extra cost in the end value, but you likely won't be able to and hence your profit margin will be eroded.

Project Name	123 Street, ABC Suburb, State, Code	
		Google Map

Acquisition Costs		**Amount**
Land Value		1,000,000.0
GST	No	0.0
Stamp Duty	5.50%	55,000.0
Legals Acquisition	0.07%	700.0
Total Acquisition Costs		1,055,700.0
Construction Estimate		
Land Value Units	4	263,925.00
Avg Built Area / Unit (m2 or sq. ft)		150
Const. Costs / m2 (sq. ft)	iGST	1,650.0
Total Const. Costs / Unit		247,500.00

Funding Table	**TDC**	**GRV**
Debt - LVR / LTV - 60%	$1,346,333	$1,854,545
Dev. Equity	$1,121,944	$613,732

Tax	GST
	iGST
Cost Heads	**Costs / Unit**
GRV (Sale Value)	850,000.0
Land Value / Unit	263,925.0
Construction	259,875.0
Consultants	15,592.5
Council Contributions	12,500.0
GST	26,271.1
Marketing / Agents Comm	14,450.0
Misc + Legals + Mkt + BP + Val	7,000.0
Finance Costs	17,455.8
TDC	617,069.5
Profit	232,930.5
Dev. Margin	37.7%

Target DM %	20.0%
Residual Value of Land / Unit	$355,188.9
Residual Value of Land	$1,346,687.6

Since it's so crucial to buy at the right price, it's a good idea to start at the end and work backwards by determining what type of development you're going to do and what the end value of the project will be in your chosen market.

Once you allow for costs you'll know what you need to buy the land at in order to make your desired profit. Stick to this figure and don't go over it.

To be a successful property investor and developer you need to keep your emotions out of the deal; it's all about the numbers. If they don't stack up, walk away and find another deal. And there will be one.

Conducting Property Development Financial Feasibility Analysis

Preparing a comprehensive financial feasibility analysis will be time-consuming, but it's essential if you want your development to be successful.

It will help you determine the highest and best use for the property and maximise your profits. Learn More: How To Conduct Property Development Financial Feasibility?

Property Development Costs

The first crucial step is to understand the various property development costs, which include:

- **The purchase price of the land**
- **Acquisition costs** – including stamp duty, legal fees, rates and taxes
- **Finance costs** – including application fees, establishment fees, bank valuations and legals, as well as interest charges on your borrowings.
- **Professional fees** – Consultant's costs such as architects, town planners, engineers, project managers and surveyors.
- **Construction costs**
- **Council contributions** – including application fees for development approval and building permits. Could also be fees for land subdivision, strata title and rezoning, development contribution and private open space levy.

- **Utility connection fees**
- **Selling costs** – including the agent's commission, marketing costs, legal fees, government fees.
- **Insurances** – Everyone involved in the development must be covered due to the risk involved. As a developer, you'll be liable for insurance when the buildings are handed over, including public liability and insurances against fire, storms etc.
- **GST / VAT** (If Applicable) – You must pay your GST/VAT obligations on the sales of the developed properties at the end of the project.

In your property development, financial feasibility, you also have to account for any income from the sales and any potential rental income.

You should also include any bonus sources of income, where you can generate some extra cash, such as selling plants, soil or existing buildings.

The financial feasibility is not an exact science, as you can't know the precise costs until the development is complete. You can, however, make some assumptions after doing thorough research, and it's best to be as accurate as possible by estimating the right costs and then allowing contingencies.

Can You Afford It?

Once you've completed your financial feasibility using a property development feasibility software you'll be able to determine how much capital you'll need for the project, and hence, whether you can afford to undertake the project. You'll be able to borrow some funds of course, but there are certain things you'll have to pay for upfront, out of your own pocket.

You'll also need a contingency amount of 3-5% in case something goes amiss.

Thorough planning through a financial feasibility study will provide you with the confidence you need to progress with the project, especially if you're inexperienced. It will also provide banks with the confidence they need to expend funds for your development.

Property Development Finance

Once you've conducted your financial feasibility study and determined that your project will be worthwhile in terms of profitability, you'll need to work out how you're going to finance it.

Development finance is significantly more complicated than obtaining a normal retail loan for a straightforward buy and hold property investment, so it's essential to have a thorough understanding of how it works.

This is a crucial part of the development process; without finance, there is no project, unless you're able to fund the entire project yourself, which not only is unlikely but also does not make business sense.

While you'll be borrowing significant funds, you will also need some equity to put into the project, and you'll know exactly where your personal capital is required from your financial feasibility study.

The 3 Stages Of Property Development Finance

Land Acquisition Loan

When you purchase a development site you usually get a long-term retail loan from a lender, and you start making loan repayments as soon as it settles. If there's an existing house on the land you can rent this before the development begins to help with repayments.

It's important to note that lenders don't like providing loans for investors that are simply land banking unless the land is in an established suburb and they know they can sell quickly if necessary. If it's a block of land in the outskirts of a city they will want the purchase to be part of a full development loan; otherwise, you must fund the land purchase yourself, and developers do this mostly through joint ventures, particularly for subdivisions. It's common for developers to partner with someone who already owns a block of land, and to use their skills to undertake the development.

Construction Loan

This is for the building phase of the development and will usually consist of an interest-only loan, but it differs from a normal loan in that the interest will likely be capitalised. That is, rather than making regular interest repayments during the construction phase, the interest charged each month will instead be added to the total amount you owe, and you then start making repayments when the project is completed.

Some lenders will also finance the GST, by extending an overdraft facility, but some won't. If it's the latter you can claim the GST regularly through your BAS statement – doing this helps with cash flow, and interest is calculated on the drawn-down amount.

Retail Loan

If, upon completion of your development, you decided to hold some or all the properties you've built you'll need to get another retail loan. It's advisable to get an offset account or a line of credit attached to it.

Read More: How To Finance Your Property Development Project?

Developers Equity Contribution

Generally, you'll be required to cover 20% to 30% of the total costs of your development, with lenders usually only allowing developers to borrow the remainder, being 70% to 80%.

The loan-to-value ratio (LVR) the lender allows you to have will depend upon your project; if you are building less than three-four dwellings it's considered a residential development, but if it's more it's classed as commercial, which usually requires more equity from the developer.

Either way, the LVR will be much lower than that for a "buy and hold" investment. Part of the funding you'll be required to input yourself will be at the conceptual stage of the development.

Since it's not funded by traditional lenders, this initial capital usually comes from private funding or seed capital – that is, it either comes from the developer's personal assets or their friends and family, as either an equity stake or as borrowings.

It pays for costs such as consultants' fees and required reports, to progress the development and get it up to the development approval or planning permit stage.

Since development loans are provided in staged payments developers often need extra funding to get by in between. If you need short-term access to funding outside the three main stages the options include bridging loans, caveat loans and non-recourse loans, as well as mezzanine finance. These are usually offered by specialised lenders willing to take the extra risks. Beware that they usually come with higher interest rates, so using this funding can erode your profits.

Property Development Loan Application

Property Development is a riskier proposition than a simple buy and holds property investment to not only an investor but also to a lender. As a result, the process for applying for development finance is more complicated, with the lender's research being more thorough and restrictions being tighter.

This is a constantly evolving field, with conditions and loan types changing, especially between lenders, so you'll need to keep abreast of changes.

A good place to start when applying for a loan is by handing over your **property development financial feasibility** to your lender – this will enable you to demonstrate you've done your homework and that the numbers stack up, proving the project will be profitable.

While there is a wide range of factors lenders will consider for your application, the end-product of the development is what they're particularly interested in, as this will be the security for the money they're loaning you. Mostly, they'll want to ensure that if a mortgagee in possession situation occurs they'll be able to sell the end-product and get their money back.

As well as scrutinising your development and financial feasibility, lenders will also analyse the developer to ensure they can service the loan, have experience and can provide the necessary equity. A proven track record or some sort of an experience in the field is what the lenders will be looking for. They are not only after the serviceability and equity but lenders these days also consider your ability to execute the development.

Most newbies can circumvent their lack of experience by having an experienced mentor who looks into everything they do and guides them through their first development.

To maximize your chances of the loan/s being approved, you should approach the lender in the most professional manner, preparing and submitting a detailed application. It should include the following details:

- Site particulars – including the site description and zoning
- Development particulars – including the type and the design concept
- Costings – Including the feasibility study with gross realization value and profit margin
- Salability Analysis – including the strengths of the end product and why it will appeal to buyers, such as location, quality and suitability to the target demographic
- Project timelines
- Personal details of the developer – including your financial situation, such as the equity you can input and your experience.
- Development team's details – including their experience, with examples of other projects they have delivered.

If you need help with finding the right lender and getting your loan submitted correctly and approved, it's wise to seek the help of a professional, such as a specialised development finance broker.

Purchasing The Development Site

Once you've secured funding for your development project, you can move ahead with the purchase of the site. But before you act you'll need to determine which entity you're going to buy the property in. It might seem logical to buy it in your own name but this may not be the best course of action, as it may not provide you with the best asset protection or help you minimise the tax implications.

You must seek specialist advice from your accountant from the outset to determine which name you'll buy the property under. It's wise to set up the right structure from the beginning to avoid any costly changes down the track.

Your accountant will consider your individual circumstances and the specific project you're undertaking and determine what the best financial structure should be to suit your requirements. There isn't a one-size-fits-all approach.

The way it's structured will largely hinge on whether you're undertaking the development on your own or with a partner, and what your long-term plan upon completion of the development is. Your personal financial situation will also help determine the right financial structure for you.

Understanding The Concepts

While your accountant will advise on the best course of action as part of your wider investing strategy, as a developer you should have a good understanding of the different ways you can structure things and why.

Spend time researching the various investment structures so you can make a more educated decision.

Property developers undertaking small-to-medium residential projects often use a new entity and/or structure for each project, largely to minimise risk.

The investment structure refers to the way your investments are legally owned, and following are some of the main entities through which to buy:

- **Individual –** The simplest ownership vehicle is to hold investments in your own name. Benefits include the ease and the administration of it, the low cost and it's tax effectiveness, especially if you are a high-income earner. The big disadvantage is the lack of asset protection.
- **Partnership –** Also relatively simple and is a separate entity for tax purposes. It must distribute income to the partners but does not pay tax. It offers no risk protection.
- **Companies –** This is usually used for a business rather than property investments, but a development is similar to a

business hence it could be a good way to go, depending upon your situation. The benefit is that the tax rate on profits is 30% and it offers some asset protection, but drawbacks include that investment sales aren't eligible for a capital gains tax discount. It has high set up costs, but some asset protection and can work well for investors.

- **Trusts –** There are three main types – discretionary, unit and hybrid – with ranging benefits and disadvantages. Trusts are a popular investment structure and often provide for asset protection.

The tax issues associated with a development can be complex, especially if you want to sell some of the end-product but keep some in your portfolio long-term. Often companies are used as development vehicles and trusts are used to hold properties long term, due to their potential for the 50% CGT discount when it's eventually sold.

When selecting a financial entity for your property development project, you should consider tax implications, asset protection, long-term goals and your personal financial situation along with the level of flexibility required.

Property Development & Negotiation Skills

Remember that the price you pay for your development site will determine your profit margin, so it's critical you negotiate at the time of site acquisition. If you have done your financial feasibility correctly, you will know the maximum price you can pay for your financial feasibility to stack up. So, one method when negotiating is to simply impart this to the seller & the real estate agent, rather than haggling over price. Must Read: How to control property with little or no money?

This involves simply sharing your knowledge with them, telling them what you can do with the land and what the costs are, leaving you with a figure of $x that you can afford to pay. Show them the financial feasibility if you need to, to back up your claims with facts and figures.

The golden rule of negotiating is to refrain from getting emotional & always having your BATNA (Best Alternative To Negotiable Agreement). As a developer, a deal is all about the numbers; it's not about your love of the site, but the profit you can make at the end of the day. If it doesn't stack up, walk away; it's not worth the risk & the hassle. For this reason and this reason alone, I never buy a development site in an auction and neither do I negotiate to pay more for a site.

It's important to understand that negotiating isn't just about the price of the block. To make your offer more attractive to the vendor you can also negotiate on the terms of the purchase, such as settlement times, inclusions and access, or even losing the "subject to finance" clause if you are confident of what you are doing.

Sometimes offering the most favourable conditions will get your offer over the line, even if there's one on the table for a higher amount. While you certainly want to secure the development site at the best possible price it's often unwise to lowball the seller. This will immediately put them off and no matter what special conditions you offer they probably won't accept, dismissing you as a tyre kicker. In fact, offering your best offer first might even get you over the line immediately. Again, all this will depend upon where the market is at, at the time of purchase.

It's also advisable to act quickly when you find the right property and be prepared when it comes to the way in which you will negotiate. You can even try role play to develop possible responses in advance to lots of different scenarios, so that if the vendors say "X" you can respond with "Y".

Be forthright and put your money where your mouth is, submitting a written contract with a holding deposit to show you're serious.

Negotiating is a skill, and if you do it right it can result in thousands of dollars in savings. If you get it wrong, however, you can either end up paying too much or a perfectly good deal could slip by.

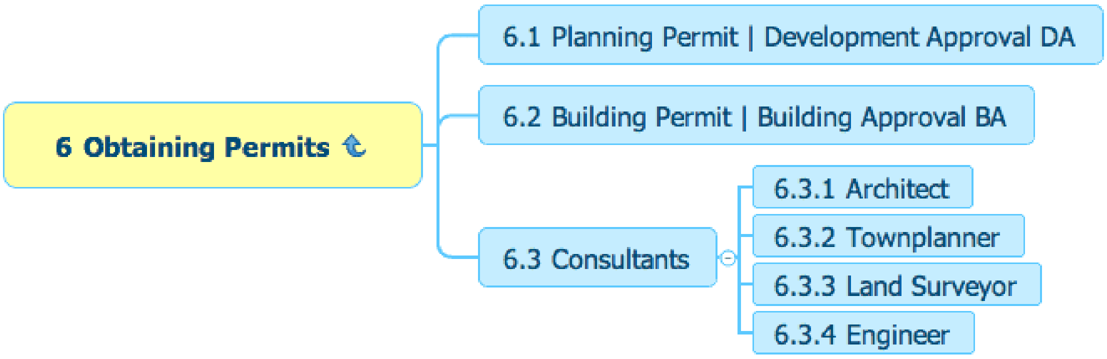
It's especially crucial to negotiate well in a hot market because if you don't step up, there are plenty of other buyers who will come along and pull the rug out from under you, and agents will only be more than happy to oblige the vendor.

If you don't have good negotiating skills then either get educated and become a master, or seek the help of a professional to do it on your behalf (hopefully you'll be able to claw back this cost by paying less for the purchase price).

From your due diligence you would have established the right product fit for your development site, and after settling on the purchase you'll need to refine and finalise your project concept.

The next step is to then get permission for undertaking your development and to progress your project with the help of various consultants.

Obtaining Permits



The two broad permits you'll need to apply for are 1) Planning Permit also known as Development Approval (DA), and a Building Permit also known as Building Approval (BA).

A planning permit or DA gives permission for a development on a particular piece of land. To obtain the DA, you make an application to the local council, which will then either grant the permit or a notice of the decision, depending on whether there are any objections to the application.

If you are given the latter you may need to revise your application in some way to address objections. You will then usually get your DA or permit after a cooling-off period, but be aware that a strong objector can lodge a claim with the Civil and Administrative Tribunal (or equivalent in your state or territory), which can delay your development by months.

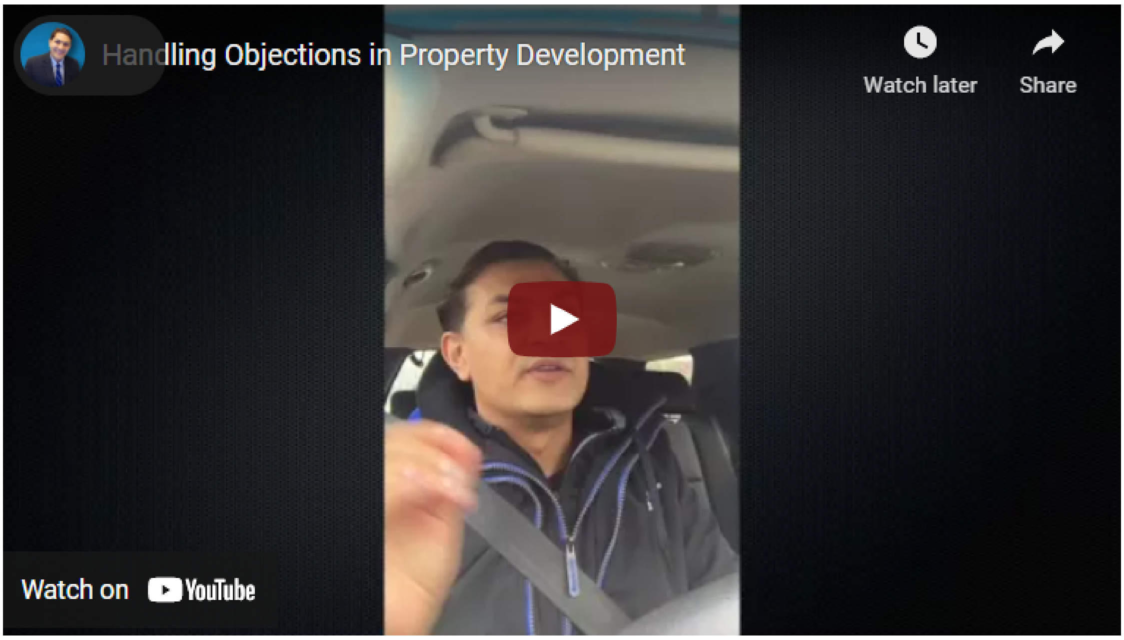
One way of tackling this and avoiding a trip to the tribunal is to approach the objector directly and try to appease them by handling their objection – perhaps by showing them shadow diagrams to prove there are no shadows affecting their property if that's the issue and it occurs more often than not.

If the council refuses to grant you a permit or you aren't happy with the conditions of their approval you have the option of lodging an application for review in the Civil and Administrative Tribunal as long as your development was designed within the residential codes.

One of the keys to getting fast development approval is to buy correctly – if you buy a site that already has the right zoning and no overlays or an overlay that is conducive to development, it will be easier to get a DA and subsequently a BA, which is a permit for the method of construction for your development.

If your site doesn't have the right zoning, there are overlays, or you're trying to increase the density higher than what the res-codes allow in the area, the approval process could be dragged out significantly. There are many risks associated with property development. To find out more, read a post I wrote a post on How To Manage Risks in Property Development?

Watch A Video On How To Handle Objections In Property Development?



Consultants & Professionals

You'll need to engage various consultants and put together your property development team to help you obtain approvals, prepare relevant reports and progress the project.

It's crucial to know exactly who you need when applying for a DA, and from there a BA – to determine which consultants you require at each stage and what you need from them.

Here's a basic outline of what they do, but is by no means exhaustive:

- **Architect –** An architect is involved right throughout the process, and their tasks are many and varied. They design your development to provide the highest and best use for the site, but they're also involved in town planning and may also administer the building contract and oversee construction.
- **Town planner –** A town planner plays a vital role, working with the architect to ensure the development fits within the planning regulations in the relevant council area. They should also be able to help avoid objections to your development by identifying possible issues and working with the architect to create a design that overcomes these.
- **Land Surveyor –** The task of a land surveyor includes determining the boundaries of the site and conducting a set-out survey, which sets out the exact position of the building within the legal boundaries of the site.
- **Engineers –** Engineers ensure the build is structurally sound and depending on your project, you may need more than one type.

Marketing Your Development

You can start marketing your project as soon as you've got approvals.

Marketing is one of the most crucial aspects of your development, as without marketing you will not be able to sell your development.

Concept And Design

In coming up with a concept and design for your development you need to be conscious of creating a product that will sell, and if you've done your due diligence properly you'll have this covered.

Regardless, you'll still need great marketing to sell the lifestyle associated with buying into the development and get sales across the line fast.

Pre-Sales (Off The Plan)

Traditionally marketing would have started when the product was completed, and real estate agents could simply show potential buyers through. But these days the landscape has changed, with marketing kicking in much earlier in the project.

Why? Because lending restrictions have tightened, and banks are becoming more strict with pre-sales requirements in order to de-risk the project and safeguard their interest. Often they require at least 50-60 percent of the final product to be sold off the plan before construction commences, and they'll want updates on sales as the project progresses.

Since off-the-plan sales are so important there's now much more involved in marketing than just getting a real estate agent on board – although this will be part of it.

Buyers Perception

Buyers need to be able to fully envisage the completed product even though there's nothing physical for them to see, so it's important to get quality renders and material boards done as part of your marketing mix.

While traditional marketing such as flyers and print advertising is still around, digital marketing is catching up fast. Any way in which you can show the property digitally – perhaps even through virtual reality or 3D visuals is a plus.

Marketing Renders

Avoid the temptation to get cheap renders – your sales will hinge upon potential buyers being able to really get a feel for your completed product, and they won't be compelled to buy if your renders are sub-par, especially if your product is $500K+, which is a very significant investment for anyone.

Marketing Material

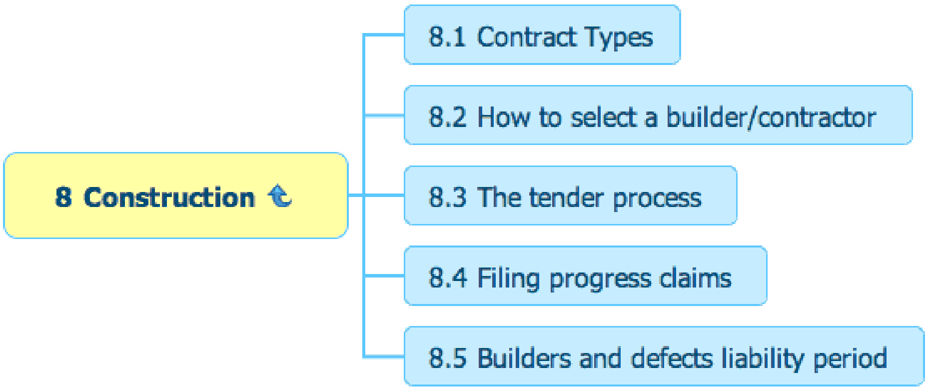
The marketing material you should also include a finishes schedule to show buyers the colour scheme and the materials that will be used. You can even get a materials board done so people can physically touch the materials, such as the tiles, floorboards, and materials for the kitchen benchtops and sample finishes.

Think Outside The Box

Think outside the box when it comes to marketing – online is where it's all happening these days, so look at various options. It could be through having a website, direct advertising or even utilizing social media to reach your target market.

Whatever you do to market your development, just make sure you understand your target market and determine how to reach and engage with potential buyers. And lastly, make sure your product is priced right.

Construction



As soon as you've got your permits and you've put a marketing plan into action to get some pre-sales, you'll need to get the development springing into life by getting started on the construction.

You don't need to be a builder to get this right, but like everything, you should have a thorough understanding of the processes involved.

Your knowledge of the construction phase should include – but is not limited to – the following:

Type Of Construction Contracts

A fixed price contract is often the best option since you'll know upfront what your costs will be. Unexpected costs will often have to be covered by the builder, however, there are some unknowns, such as difficulties encountered with the landscape, such as hitting rock, that may have to be covered by the developer.

How To Select A Builder/Contractor

Just like any industry, there are good builders and there are bad builders, so careful selection is important. It can be cheaper to subcontract building work, but for inexperienced developers, the easier option is to select a good licensed builder who has the relevant experience, insurances and comes highly recommended.

The Tender Process

Potential builders you're considering will submit a tender for the work. Get a professional to compare their contracts if necessary.

Filing Progress Claims

Under most building contracts the contractor is paid progressively throughout the project. They submit progress claims which are then assessed by the QS appointed by the bank before the progress claim is released.

Builders And Defects Liability Period

When the project is completed, builders must issue a warranty and they'll be responsible for any defects in the building during the period it covers.

Construction Costs

While you'll have had an idea of the construction costs for your project from early on – especially if your quantity surveyor has prepared a cost plan – the final cost will be unknown until the end.

As you go through each process the cost of construction will change. It can't be finalised until the development approval has been granted, for instance, as the council may request changes that will impact upon the cost of building and it will also depend on what happens when work on the site starts.

The costs of construction will be largely determined by two main factors – the availability of materials and labour.

Materials generally rise in price over time in line with inflation but if something is in short supply it will be more expensive, and if it's imported the price will be affected by exchange rate fluctuations.

Labour costs are also impacted by demand and supply – if workers are in short supply the costs will rise, and vice versa. If you're building in an area where there's lots of development going on this is something to consider, as the shortage of skilled labour means your costs may be higher.

You should know the costs of these factors up front, but if your project drags on over a long period of time (more than, say, the usual six to 12 months) and something changes in terms of the supply, the costs can rise.

Keep in mind that construction costs are generally higher in areas where the cost of living is higher. It's also often more expensive to build in regional areas due to the availability of materials and labour.

Each development site is different, so construction costs will differ from project to project – there isn't a one-size-fits-all, even if you're using the same plans.

There can also be problems with time delays, which can sometimes be avoided by getting a contract that specifies when a build must be completed, and if it goes over the builder can be held responsible for the extra costs.

Construction costs will also be dependent on the finish you go for. Don't go for the cheapest option, but also make sure the product you're constructing is suitable for the demographic you're targeting and the sale price.

Your Property Development Strategy

You should know what your strategy is for the development – in terms of whether you intend to hold some or all of the finished product or sell it – right from the outset.

This is largely because it will impact many aspects of the development, such as being able to claim GST.

To determine whether you should keep some or all of the properties you've built it's a good idea to look at the potential cash flow – if they're going to be neutral or positively geared then it's probably a good idea to hold them, as long as they also have capital growth prospects and you can afford it. Often properties you've developed will offer good cash flow as you'll have paid wholesale prices for it.

Whatever your strategy, it's highly likely that you'll be selling at least some of the properties you've developed to pay down the debt, and hopefully many of these will be your pre-sales, so you will have signed contracts ready and waiting for settlement upon completion of the project.

Settlements

To ensure these settle straight away you'll need to make sure the titles are ready in advance; start this process around three months out from completion.

Having the titles ready on time means you can reduce your costs by reducing your interest. At the end of the construction you've drawn down 100% of your construction loan, and you'll be paying a huge amount of interest – it could be $400 to $1000 per day, depending on the size of your development, which will be eating into your profits.

If you're keeping some of the finished properties, you may also need to refinance and get them tenanted ASAP to help you service the loans.

Selling the properties in the development means you'll be able to realise your profit straight away, but you'll also miss out on future capital growth that would come from holding the properties for the long term, and you'll have to pay taxes on your profit and selling costs, eroding your profit margin.

The happy medium, therefore, is often to sell some and keep some. If you keep some you can also realise your profit by accessing the equity to buy again, rather than using the profits.

Find Out More About Property Developer Courses.

FAQs

Is it worth getting into property development?

If you're in a very secure financial situation, it is not worth thinking about how to go into property development. Bringing on a property to develop is a big step, and if you make a mistake, you might find yourself in a lot of debt with a property you can't sell and even lose your house.

What makes a good property developer?

The most brilliant property developers have outstanding interpersonal and communication skills. They can connect with individuals from various walks of life and establish genuine connections rapidly.