LeadDeveloper

Property Development Feasibility Study [The Key]

Know Your Numbers To Flip, Develop Or Control Any Property For Profit...

Amber Khanna
Lead Developer | Founder
LeadDeveloper.io

Property Development Feasibility Study [THE KEY]...

Property Development Financial Feasibility

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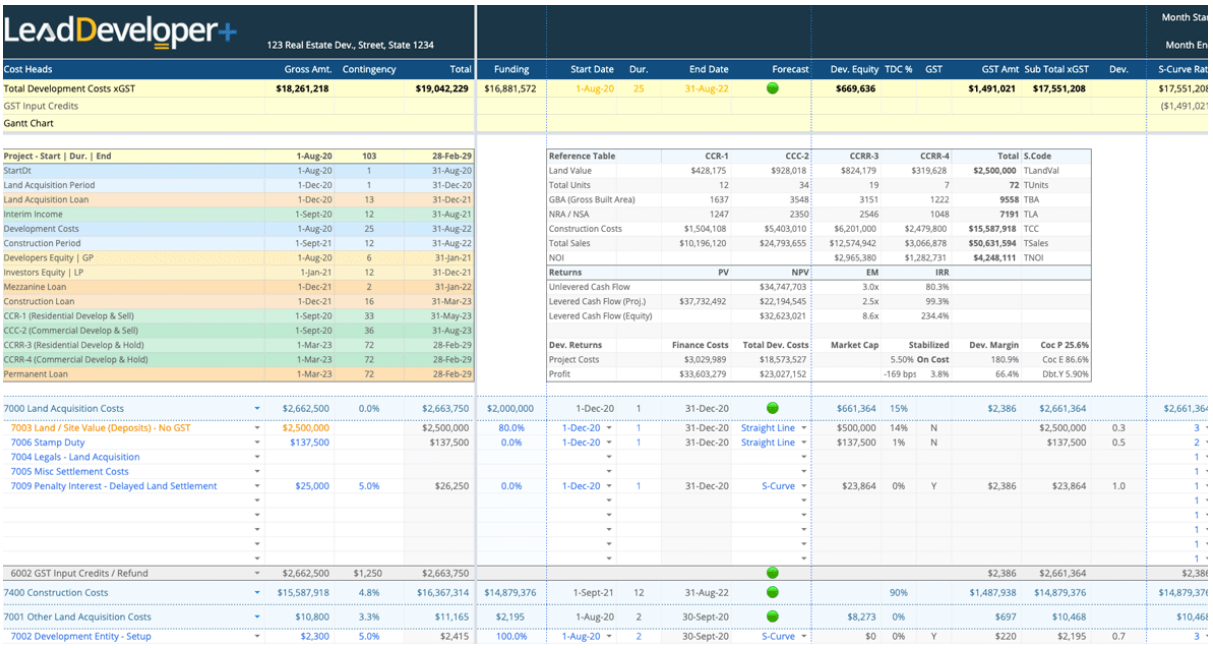
Lead Developer

Property Development Feasibility Study



LeadDeveloper+ 123 Real Estate Dev., Street, State 1234

Cost Heads	Gross Amt.	Contingency	Total	Funding	Start Date	Dur.	End Date	Forecast	Dev. Equity	TDC %	GST	GST Amt	Sub Total xGST	Dev.	S-Curve Rat
Total Development Costs xGST	$18,261,218		$19,042,229	$16,881,572	1-Aug-20	25	31-Aug-22		$669,636			$1,491,021	$17,551,208		$17,551,20
GST Input Credits															($1,491,02
Gantt Chart															

Project - Start | Dur. | End	1-Aug-20	103	28-Feb-29
StartDt	1-Aug-20	1	31-Aug-20
Land Acquisition Period	1-Dec-20	1	31-Dec-20
Land Acquisition Loan	1-Dec-20	13	31-Dec-21
Interim Income	1-Sept-20	12	31-Aug-21
Development Costs	1-Aug-20	25	31-Aug-22
Construction Period	1-Sept-21	12	31-Aug-22
Developers Equity | GP	1-Aug-20	6	31-Jan-21
Investors Equity | LP	1-Jan-21	12	31-Dec-21
Mezzanine Loan	1-Dec-21	2	31-Jan-22
Construction Loan	1-Dec-21	16	31-Mar-23
CCR-1 (Residential Develop & Sell)	1-Sept-20	33	31-May-23
CCC-2 (Commercial Develop & Sell)	1-Sept-20	36	31-Aug-23
CCRR-3 (Residential Develop & Hold)	1-Mar-23	72	28-Feb-29
CCRR-4 (Commercial Develop & Hold)	1-Mar-23	72	28-Feb-29
Permanent Loan	1-Mar-23	72	28-Feb-29

Reference Table	CCR-1	CCC-2	CCRR-3	CCRR-4	Total	S.Code
Land Value	$428,175	$928,018	$824,179	$319,628	$2,500,000	TLandVal
Total Units	12	34	19	7	72	TUnits
GBA (Gross Built Area)	1637	3548	3151	1222	9558	TBA
NRA / NSA	1247	2350	2546	1048	7191	TLA
Construction Costs	$1,504,108	$5,403,010	$6,201,000	$2,479,800	$15,587,918	TCC
Total Sales	$10,196,120	$24,793,655	$12,574,942	$3,066,878	$50,631,594	TSales
NOI			$2,965,380	$1,282,731	$4,248,111	TNOI

Returns	PV	NPV	EM	IRR
Unlevered Cash Flow		$34,747,703	3.0x	80.3%
Levered Cash Flow (Proj.)	$37,732,492	$22,194,545	2.5x	99.3%
Levered Cash Flow (Equity)		$32,623,021	8.6x	234.4%

Dev. Returns	Finance Costs	Total Dev. Costs	Market Cap	Stabilized	Dev. Margin	Coc P 25.6%
Project Costs	$3,029,989	$18,573,527		5.50% On Cost	180.9%	Coc E 86.6%
Profit	$33,603,279	$23,027,152		-169 bps 3.8%	66.4%	Dbt.Y 5.90%

7000 Land Acquisition Costs	$2,662,500	0.0%	$2,663,750	$2,000,000	1-Dec-20	1	31-Dec-20		$661,364	15%		$2,386	$2,661,364		$2,661,364
7003 Land / Site Value (Deposits) - No GST	$2,500,000		$2,500,000	80.0%	1-Dec-20	1	31-Dec-20	Straight Line	$500,000	14%	N		$2,500,000	0.3	3
7006 Stamp Duty	$137,500		$137,500	0.0%	1-Dec-20	1	31-Dec-20	Straight Line	$137,500	1%	N		$137,500	0.5	2
7004 Legals - Land Acquisition															1
7005 Misc Settlement Costs															1
7009 Penalty Interest - Delayed Land Settlement	$25,000	5.0%	$26,250	0.0%	1-Dec-20	1	31-Dec-20	S-Curve	$23,864	0%	Y	$2,386	$23,864	1.0	1
															1
															1
															1
															1
6002 GST Input Credits / Refund	$2,662,500	$1,250	$2,663,750									$2,386	$2,661,364		$2,38
7400 Construction Costs	$15,587,918	4.8%	$16,367,314	$14,879,376	1-Sept-21	12	31-Aug-22			90%		$1,487,938	$14,879,376		$14,879,37
7001 Other Land Acquisition Costs	$10,800	3.3%	$11,165	$2,195	1-Aug-20	2	30-Sept-20		$8,273	0%		$697	$10,468		$10,46
7002 Development Entity - Setup	$2,300	5.0%	$2,415	100.0%	1-Aug-20	2	30-Sept-20	S-Curve	$0	0%	Y	$220	$2,195	0.7	3

One of my mentees recently asked me what I thought to be the single most important step in my property development process.

I suspect my response wasn't the flashy sound bite he was looking for, but I still stand by my answer one hundred percent.

The number one reason why property development projects fail is because of underestimating development costs and ***developers equity contributions****. i.e. the money that comes out of your pocket to fund the development.*

And just as I did for him, in this article I will share with you an overview of the reasons why a robust feasibility study should be the basis for your property development project. Introduce you to the concept of a Property Development Feasibility Study and explain how a documented feasibility study plan will help you account for all project costs.

Cost Of Making A Mistake

Developing property is extremely different to run-of-the-mill buy-and-hold property investment strategies. The stakes are much greater, the projects are much more complex and timeframes are much more volatile.

I don't say this to try to scare you, but rather to stress that the margin for error when developing property is much smaller. Those who do their homework and careful planning will ultimately come out on top.

As Sun Tzu famously quotes in The Art Of War...

The battle is won before it's ever fought.

Regardless of whether this is your first property development project or your hundred and first, the key to a successful property development project is careful planning and a meticulous feasibility study. And for most developers, planning begins with a Property Development Assessment And Feasibility Study.

What Is Property Development Assessment And Feasibility Study?

You wouldn't start a business without a business plan, right?

How would you know what legal requirements you need to fulfill? How would you tell if your pricing and sales forecasts are adequate? How would you know what advertising campaigns to run and when?

The same applies to property development.

A Property Development Appraisal or real estate development feasibility study is like a business plan. It helps you deconstruct complex projects and execute them in a manageable and timely manner – with as few surprises as possible - financially.

Your plan will help you reduce risks, forecast the investment required by yourself as a real estate developer, manage timelines, get legal and regulatory approvals and prevent bottlenecks.

Just as a property development business plan plays a crucial role in getting various stakeholders 'on-board' with a business vision, so too will your Property Development Appraisal And Feasibility Study. From bankers to builders and beyond – their understanding and support for your project will prove invaluable.

Why Is It Important To Conduct A Financial Feasibility Study?

Preparing a comprehensive study takes a considerable amount of time and effort, but once completed, serves as a project guide, not only for the developer but also for the development team.

In preparing the property development feasibility study you will gain the following benefits:

- **Preliminary** property development feasibility software **–** This is the most important aspect and it is imperative that you are able to ascertain if your deal stacks up. This pre-property development assessment will determine an approximate profit and will save you from wasting your time, efforts and money.
- **Concept Testing –** Cost overruns can cripple a property development project. A systematic property development assessment allows you to make mistakes on paper, rather than when the project is completed.
- **Confidence –** A thorough feasibility study will increase the developer's confidence in his or her ability to proceed with the development. Sometimes, it may even compensate for a lack of experience if the concept is sound and there is good demand for the end product you are developing.
- **Finance –** Property development feasibility shows the level of finance required and for how long. Under capitalisation and early cash flow problems in a project are two major reasons new developments fail. Feasibility analysis also allows you to convey your ideas to bankers & potential

investors, and help them to understand and appreciate the reasoning behind these ideas.

What's Included In A Property Development Feasibility Study?

The goal of every property developer is to achieve the maximum potential or highest best use for the development. In other words, realising the best possible profit they can extract from a development site. A good study helps the developer meet his goals, whether to gain a deeper understanding of the project, establish its viability, or acquire additional funds.

In order to make sure that the development project provides a certain level of profit, a financial feasibility study real estate is undertaken during the initial due diligence phase. The sole purpose of the feasibility study is to determine the numbers (financial viability) and to evaluate a return from the development.

Feasibility study looks into cash flow (the amount of money left after all expenses and costs have been paid) and equity (developer's money left remaining after paying interests and borrowings).

Usually, a preliminary property development feasibility study is done on a 'per lot / per unit' basis whereby the profits and expenses are bifurcated on an individual property basis.

Make sure you include the following in your property development feasibility study...

- Development property's description
- Details of the proposed development
- Market research & analysis

- Total project costs of the development from start to finish
- Complete financial analysis, including sensitivity levels that accounts for interest rate, cost assumptions and or sale price & vacancy fluctuations
- A real estate valuation [if available]
- A promotional strategy
- A final suggestion

If you are submitting a loan application, you should additionally provide the following information:

- A collection of financial data, such as balance sheets
- A description of the developer's background.

Property Description

Under this section, you should include the following information:

- The property's geographical location (a locality map will help)
- Dimensions of the property and its surrounding area (a survey plan will help)
- References to the lot number and title
- Existing improvements, if any, encumbrances such as easements and mortgages.
- Description of neighbouring properties
- Conditions of the soil (a report from a geotechnical engineer might be helpful)

- Town planning zoning and rules

Proposed Development's Description

The developer or his architect should produce this part of the feasibility study, which should include the following:

- A general explanation of the project
- An explanation of the proposal's most significant details
- Plans
- Building's elevation
- Parts (depending on the magnitude and complexity of the project)
- Perspective, or a three-Dimensional rendering of the project
- A list of the materials used.

Market Research & Analysis

Market research conducted by a research firm can be costly, and it may only be essential if the project is small enough. You can also perform your research and gather information from:

- Real estate agents working in the development area
- Valuers with experience in the field
- The office of the Valuer-General -
- Housing Industry Association (HIA)

- Journals and newspapers.

The market study should include all of the information needed to support the proposed idea. The following items are required:

- Customer profile
- Demography of the population
- Competition
- The kind of product
- Pricing structure (current and future)
- Material for promotion

Critical Path Analysis

A programme or critical path analysis can help you formulate capital input and, more critically, cash flow over the project's life cycle.

A critical path analysis depicts the development process, including the several stages from the concept's inception to the project's end.

Your building contractor or quantity surveyor will prepare a development programme and associated cash flow.

Financial Analysis

The financial analysis aims to determine the expected return on investment for a project. The development programme and

cash flow timing are essential because they will affect profitability.

The majority of developments will only see revenue at the end of the project; therefore, the more prominent the project, the longer the programme, and the more critical the cash flow timing.

A sensitivity analysis should be performed as part of the financial analysis, as this will reveal the project's worst- and best-case situations.

It is a "what if..." exercise, and the essential variables to examine are: land price, construction cost, and sales and holding costs.

Adjusting the above factors by a percentage, usually 10%, and then recalculating the profitability or internal rate of return (IRR), whichever is suitable, is one way to examine the sensitivity of the development.

Graphed results are used to show the sensitivity of a development's alterations and their impact on its future value. You may pay greater attention to the most vulnerable changes if you are aware of them, ensuring that the project remains feasible.

Property Valuation

A sworn appraisal from a qualified and registered property valuer will instill confidence in your investors. The charge for the valuation can vary depending on the quantity of work that the valuer must accomplish.

An appraisal by a valuer of the property in its original condition and one upon completion, depending on the scale of the project and the quantity of money, investors, or syndication you

are attempting to attract, would undoubtedly be more persuasive to the would-be financier or investor.

Marketing Plan

Your personal goals will determine your marketing plan and whether you are constructing for rent or for sale. Whatever the situation may be, you and your team should develop a marketing strategy with the help of your marketing and advertising advisors.

This section of your research should include a brief overview of the marketing campaign and a budget estimate. It should include the following:

- the marketing division
- budget projections
- a study of the current state of the market
- a clear statement of the marketing goals
- the development's position and distinctiveness from its competitors
- the process of laying out your marketing mix plan
- the market selection, assuring that such a development is in demand
- essential success factors identification
- To assess if the marketing plan is working, define a measurement system or a checking system.

Project Recommendations

It is an executive summary of the project's development and prospective returns, as well as documentation of the activities you and your team intend to take.

This section should include the following items:

- an examination of the dangers associated
- an examination of the available funds

Financials of the Developer

This information is only necessary if you're looking for a loan and want to demonstrate your creditworthiness. The development company's or your balance sheets, any additional assets to support the project, and any references from other lending institutions or traders to verify trustworthiness are all items that should be presented.

Your accountant can supply the most up-to-date returns and financials, which financial lenders require.

Developer's Track Record & Credentials

This is essentially your resume, and it is necessary if you plan to sell the project. It will also aid in the preparation of a financial application. The data should demonstrate your credibility and ability to carry out the development.

Although earlier development records are valuable references, they are not as crucial as proven management and business skills. It is beneficial to add business and career references, but it is not necessary to include your school grades or athletic achievements.

Presenting Your Feasibility Study

Because several people will see your feasibility study, including the financing authority's management, your document must be impressive and professional. All research mentioned above and information should be kept in a bound folder, preferably in A3 format.

Colour graphics and colour pictures are important because they leave a lasting impression. If your work is lengthy, a table of contents at the beginning that refers to numbered pages will help the reader locate relevant information.

Types Of Development Costs Included In A Property Development Feasibility Study

Developer's Equation

The developer's equation considers elements such as land costs, building costs, finance costs, and potential profits from the completed project. The following is a representation of the equation:

VALUE = LAND COSTS + BUILDING COSTS + FINANCIAL COSTS + PROFIT

Land Purchase & Acquisition Costs

This includes all costs associated with acquiring the development property/site. For instance, Land value, stamp duty, legals (for example lawyers fees/conveyancing fees), rates and tax adjustments.

Finance Costs

Can come in two parts, for example, you may want to settle for the development site first and you, later on, you may decide to develop the site. In this scenario, you can get a retail loan first to settle for the land. Once you are ready with your development

approval or planning permit, you can then get a construction loan.

Other fees that become part of finance costs include application fees (usually 1% of the loan amount (different banks charge different application fees and they can be negotiated), establishment fees, bank valuations, and legals. Some brokers may charge a raising fee for arranging the loan. All ongoing interest charges starting from the first bank drawdown are also part of finance costs.

Professional Fees

These fees must include all fees charged by consultants and professionals. Not all consultants and professionals are used on every project. Professional fees vary depending upon the size of the project.

Some of the professionals required for property development are architects, building designer, civil engineer, Hydraulics Engineer, Structural engineer.

Council Contributions

Councils charge for a lot of things. To start with there are two main application fees for residential property development – Development Approval or planning submission fees and building permit fees.

Depending upon what you are developing there could be fees for land subdivision, strata title, and rezoning. Councils also charge a council contribution fee also known as development

contribution. These fees basically offset the extra load or new load on council infrastructure.

Utility Connection Fees

There is a fee involved when connecting utilities to a development site including water, electricity, drainage, stormwater, telecommunication, and gas.

Construction Costs

Are calculated on the basis of the design or the size of the townhouse/dwelling that you are developing. For example, construction costs can be calculated as a per square meter rate or a per square rate (in Victoria) a per square rate is usually the norm (1 square = 9.290304 square meters).

It is important that these figures are REAL when putting together a property development feasibility study, as they can also kill a deal if your figures are off or you can get caught out if you have the wrong fees.

As a developer, you can estimate construction expenses to a degree of precision. You should account for the overall cost to account for increases and decreases in labour and material expenses. These changes can be measured using published construction indexes that support the construction industry.

This category would contain all professional fees and expenses incurred on the project. Expenses for water, electricity, and gas connections, as well as fees for planning and building permissions, should all be included.

Total Development Costs = professional fees + construction costs + approval fees + building cost

Marketing or Selling Costs

If an estate agent is hired to market and sell a property, their fees have to be taken into account. Normally a sales agent commission ranges between 1%-2.75%. What you do need to know is that by law, these commissions are allowed to be negotiable.

Insurances

A necessary expense but not always welcomed. In property development, there are always risks involved due to a large number of people being involved. It is important to ensure that all parties involved starting from consultants, your own entity, professionals, builders, and their contractors have insurance to cover the project.

As a property developer, you will be liable for insurance when the buildings are handed over, including public liability and insurances against fire, storms etc.

GST – Goods and Services Tax

When you do the accounting for a property development project, you usually file BAS (Business Activity Statement) monthly. This way you can claim your input tax credits monthly and it keeps your cash flow healthy. However, you have to pay

the GST on the sales of the developed property or townhouses at the end of the project.

Contingency

Like all developments, there are always cost overruns or challenges that are faced by developers. This is a percentage of construction costs that a developer allows for, usually ranging between 5-10%. This percentage is to cover costs that you don't know about.

A classic example could be a delay in obtaining a building permit, which increases holding costs or a tribunal hearing required to deal with objections.

Income & Profit

After your development project is complete and your investment properties available for sale or rent, your profit/income is dependent upon your strategy to sell or hold them. These decisions are taken even before you get in the project, however, there's no hard and fast rule, should your financial position change by the time your developed product comes to market.

Rental Income

Should you decide to rent out your developed properties, you would have to ascertain the rent per week your developed property can fetch you.

Gross Sales or GRV (Gross Realization Value)

Is the sum total of cash that you receive after you have sold all your properties. This value is a major component of your income, as this is what you are left with after selling all your development properties. Banks also use this value to calculate a percentage that they can safely lend against the project. The end sale value of the project is ascertained by the bank's commercial valuation.

BONUS: Other sources of Income In Your Feasibility Study

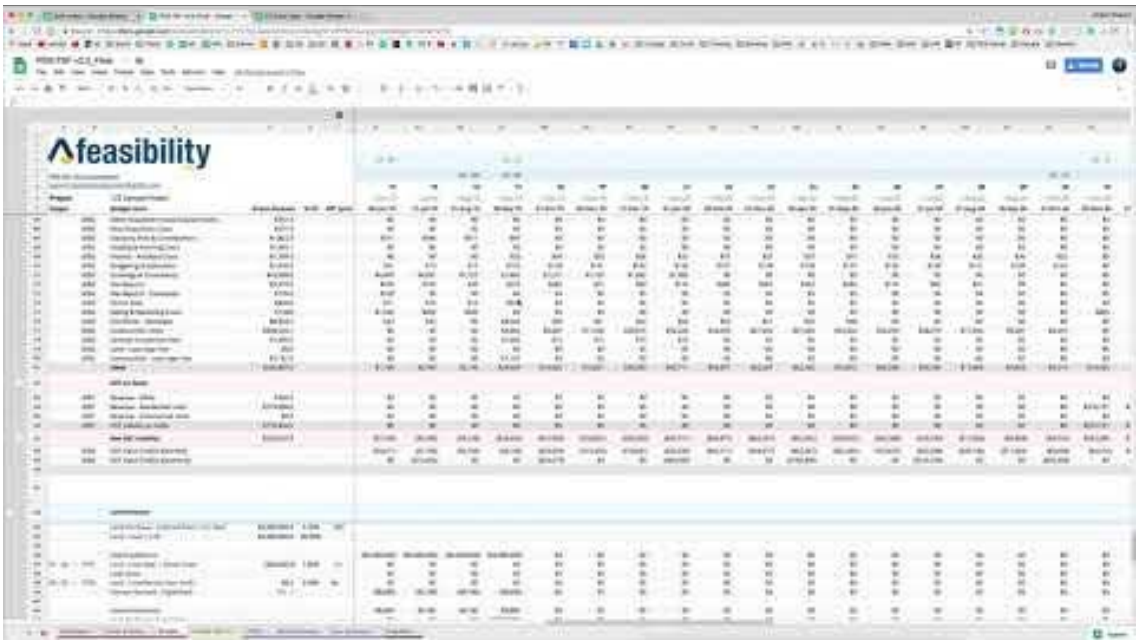
Are there any other ways of extracting cash from your development site? Let's look at some cash generation strategies from a development site.

1. **Existing Trees–** does the existing development site have trees on them? For example, if your site has Palm trees they can be sold in the market for up to $1000 each. So if the development site has 10 trees, you are up for $10,000 in extra profit.
2. **Removing Existing Property–** Old and run down houses present on many development sites offer a potential source of cash. There is a wide market for second-hand houses and your existing property if it matches certain criteria can help you generate cash. Relocating an old home can give you anywhere between $15000 - $65000.

3. **Timber Houses–** Old houses made of timber can fetch you thousands of dollars to the tune of $10,000-$15,000. You can easily generate this cash by selling just the timber in the old property.
4. Some other ways to generate cash is by selling existing bush rocks, grass turf, soil and other resources present on the property.
5. Interim rent – Your property development site can be rented, in case you have to wait to get the town planning permits for the property.

All of the above will be accounted for when calculating income and profits for a development project.

Watch: Three Types Of Property Development Feasibility Study



Do The Numbers Stack Up?

If you're yet to get started on a project or you're only at the very early stage of vetting a development opportunity and you don't have hard figures for everything listed above, don't worry.

Financial feasibilities are an evolutionary process. It is extremely rare for the initial financial feasibility to exactly mirror the final outcome. There are many variables in property development and to keep the financial feasibility current it needs to be updated every time variable changes.

The most important part is to learn from what the numbers are telling you. As tempting as it may be to reflect your ideal outcomes through your figures, the short-term momentum you'll gain from doing so will only create long-term pain which could have seriously detrimental financial implications for you and others involved in your project.

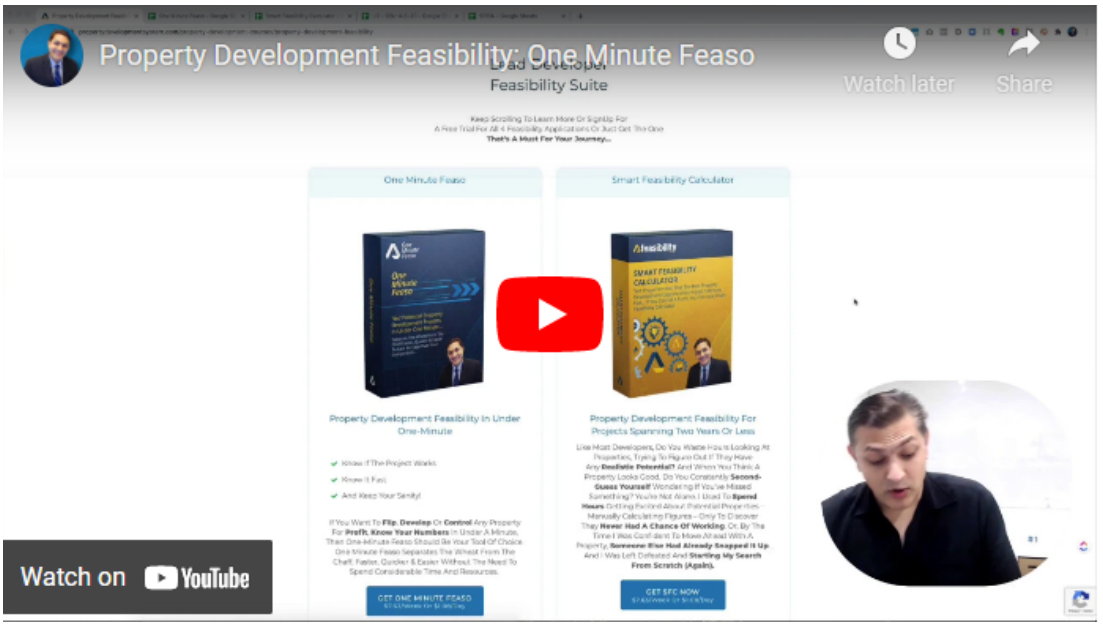
Remember, your Property Development Assessment And Feasibility Study is an extremely valuable asset for the lifetime of your development project.

In addition to the obvious concept testing to ensure you're profitability, this report will boost your own personal confidence and has the potential to open doors for additional finance, approvals, and support from important stakeholders.

Three Types Of Property Development Feasibilities & Softwares

One solution does not fit all types of real estate development feasibility studies. When you are simply looking at projects to determine if it has any legs, or whether or not you should spend more time on it - you need a tool that can quickly determine if you should spend more time on it or move on.

That's exactly what our One Minute Feaso for real estate development does for you. It basically real estate development feasibility in under a minute.



1. Validation Feasibility | One Minute Feaso

Also know as a back of envelope feasibility or quick feaso. As a property developer, you cannot afford to spend all the money and time to evaluate every project in detail. So to make it easier, most developers use a Validation Feasibility that lets them quickly ascertain financial numbers to see whether the project stacks up or not. This feasibility does not require hours to complete. In fact, with the right tool, it can be completed in under two minutes. At Property Development System we have gone a step ahead, we created a Smart Feasibility Calculator which sits somewhere in between our One Minute Feaso and Lead Developer - our detailed real estate development pro forma.

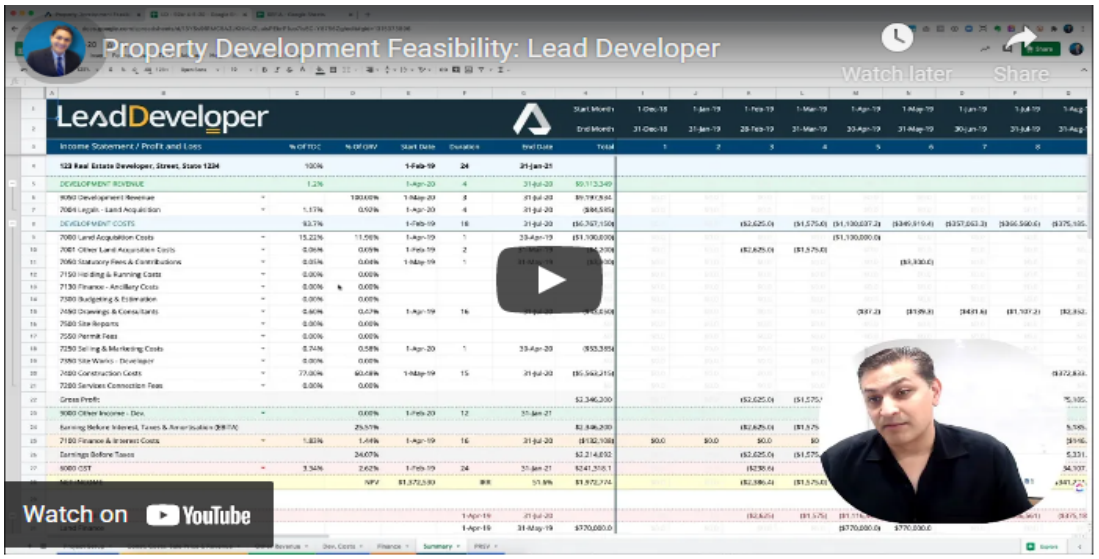
If you are looking for a development feasibility application or a property development feasibility template, check out Lead Developer a full suite of property development feasibility Softwares and applications. It is the most detailed and comprehensive property development feasibility suite on the market.

2. Advance Property Development Financial Feasibility

A detailed property development feasibility with cashflow projections and multiple financing options is usually conducted after getting a green light from your Validation Feasibility. If your Validation Feasibility says this project is financially viable, that's when you conduct an advance property development feasibility

with your project timeline, cash flow projections as well as quotes from your property development team. This feasibility also forms your baseline i.e. a financially viable result that you have accepted & used to make your decision to go ahead with the project.

Watch: How To Do An Advance Feasibility Using Google Spreadsheets?



3. Financial Project Tracking

This feasibility is maintained and benchmarked against your advance feasibility throughout the project. All change orders, monthly cashflows & property investment metrics are constantly compared with your detailed feasibility. You can compare your monthly cash flow projects, costs, project timeline as well as calculate your EVM (Earned Value Management). Check out a list of all my property development courses.

The Most Important Feasibility Study Concept In Property Development

The most important concept to remember when conducting a property development financial feasibility is to make sure that you don't end up paying more for land.

Residual Land Value

Understanding Residual Value Of Land 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 3 Bedroom 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.

Feasibility Concept - Land Valuation

Residual Land Value

This a very important concept and it's the one concept that underpins all property development feasibility studies. Make sure you watch this video below which explains this concept.

Let's look at this table. What I'm trying to explain you in this table is the fact that if you look carefully, if you look at GRV, you'll see that it's 500,000 constant all throughout. Don't look at the land value, look at construction, it's all constant all throughout, doesn't matter where you're building. Look at consultants, it's all constant all throughout. If you look at council contribution, in this scenario for example it's a townhouse development and it's a full townhouse development for example, and so I put in 4% on land value. In Victoria, usually as a thumb rule for council contribution, if you're putting full townhouses on a block of land, council contributions are approximately 4% of the land value. That's what I put in over there. See how that changes with respect to the land value.

If you look at marketing, that also stays constant, why? Because the GRV, which is the Gross Realization Value, what this means in layman's terms is the sale price of the unit that you're developing. Gross Realization Value is another term for the sale price. If you go down you've noticed that everything else stays constant. It does not matter where you're developing this, but the constant construction, and the total development cost will more or less come to be the same. Everything in the middle from this section down here is actually going to remain constant. What's going to change is your land value right here. You say, "Why wouldn't the GRV or the sale price change?"

We're talking about one suburb, and we're talking about a 3-bedroom townhouse, and if the market says that a 3-bedroom townhouse in XYZ suburb can only sale for 500,000 dollars, the market doesn't allow you to sell it for more than that.

However if you go and buy the block of land, and you pay more for the value of the land, see what happens at the bottom. If you've got 500,000 and you paid 120,000 for the land, you paid 260,000 for construction, 5,000 for consultants, and then you pay 4,800 for council, you paid GST let's say 10,000, you paid marketing, 2.5%, miscellaneous and so on. Your total development cost was 432,300 and your total profit was 67,500. Your development margin was 15.66% which is not bad. However, everything being constant, the more you pay for the land, the less your development margin is going to be because there's no way you can actually ... Just because you've paid 10,000 dollars more for land, that doesn't mean you can sell your end product at 10,000 dollars above the market. The market doesn't allow that, that's going to be constant. Every time that happens, you lose 2.72% of your profit. As you go on, if you pay 20,000 dollars above the market, you've actually lost 5.31% of your development margin and so on and so on.

As you see that if you pay too much for the land, say for example 180,000 you've started going into negative here. There's no viability left in the project at all. Basically a 10,000 increase in land value will cause an average reduction of 2.33%. If you look at the same example from a different angle, let's look at this portion here, you've got GRV at 500,000, but if you pay more for the land, let's say over here we pay 120,000 but over here I pay 130,000, I've got to sell my townhouse, or apartment, or unit at 512,385 to be able to still make the same amount of development margin. Every time I pay more for land, I've got to sell it at least at that price.

What this table is telling you is that everything else remains constant. If all is the same and remains constant, anytime you

pay more for land, you got to be able to recover that in the end value. If you can't recover that, what's going to happen is you're going to start losing that much from your development margin. Basically your profit will start evaporating every time you start paying more for land. This is a very important concept. Honestly, I actually paid 35,000 dollars just to understand this concept. Lot of people know it, all the different values live by it, but a lot of people charge a lot of money to understand this. Today this concept is free for you.

Thanks for watching the video. All links are actually in the description, if you would like to download a free resource, which is the free property blueprint, you can do so from my website by clicking on Free Blueprint, and you should be able to download everything. Make sure you check out propertydevelopmentsystem.com.au and also the links in the description below. I'll see you next time.

Property Development Feasibility Costs Explained

Before I forget, if you haven't already, make sure you check out my FREE course in property development on YouTube & while you are there, don't forget to subscribe.

We've got financial feasibility. Before I actually go ahead and explain to you what exactly is involved in financial feasibility or I show you an application that I use for financial feasibility … for conducting financial feasibility on property development projects, let me first explain to you a concept. It's a very important concept, and it's the underlying basis of all property development feasibility studies. Make sure you watch this next video carefully, and don't forget to leave your comments. I'll read all of them. If you've got any queries or anything, leave your queries in the comments and I'll try and answer them. Let's watch the video.

Land Acquisition Costs

Let's say, if you were to do a detailed financial feasibility analysis, what are the different costs that would be included in your financial feasibility? Let's look at land acquisition costs. You have your purchase price, legal stamp duty, buyers, agents commission. There are other acquisition costs like legal settlement, searches, transfer, discharge of mortgage, mortgage registration fee, pre-purchase inspections, due diligence, bars agents commissions, sorry that's a repeat, structure setup and responding fee. If somebody else formed a deal for you, you'll have to pay them responding fee. All these things will become part of your land acquisition costs.

Finance Costs

Under finance you'll have a brokerage fee. I'm telling you all of these things because even if you can do a quick two minute fizzle, and understand whether or not a deal stacks up and then move on quickly to another deal and then another deal, you still need to understand what a detailed financial feasibility includes. Under finance you'll have a brokerage establishment, evaluation interest fee, basically the interest rate, annual fee, and different kinds of admin fees.

Professionals & Consultants Costs

All the different drawings and the different professionals will make a feature survey, reestablishment surveys, architectural drawings. Now there is going to be two different fees from the

architect, one for the planning stage or the DA stage, and one for the working and drawing stage or the building approval stage. You'll have civil drawings, electrical drawings, hydraulic joinery landscape, mechanical and structural engineers of lands, where project management, development management, specifications and materials board, plan of subdivision documentation, town planning. If you at this stage do not understand what these are, don't worry about them, because I cover them in a lot more detail in my Property Development System.

Planning Permit / Development Approval Costs

All different kinds of reports would be average reports, asbestos, building surveyors, CHMB, which is the Cultural Heritage Management Plan, very common in Victoria, especially if your block of land is actually close to a water body. I'll explain that more in another video. We've got energy report, environmental audit, soil report, allowance, condition surveyor report, cross plants and estimates, electrical pole relocation. You need to report that. This is more for the builder, but because I've got a construction company as well, I've quoted in my feasibility so that I can account for it.

Construction & Demolition Costs

Domestic demolition permit, BCC planning application, well this is the Council Planning Application, it shouldn't be here. Then we've got material and finishes board again, fire levy. If you're in

Queensland, you'll have a QUU order fees. You'll have building costs, external costs, civil costs, if you're doing land subdivision. Council contribution charges, would have your service connection fees for electricity, gas and water, telephone, path and contributions, council contribution, like number of buildings divided by land as a percentage. Sewer and water contribution, and PIC number which stands for Plumbing Industry Commission Number in Victoria.

Holding Costs

In different land holding costs, you'll have land tax, council rates, water rates, property management fees, insurance and so on. Selling costs again you'll have your agent's commission fees, 3D artist impressions, advertising brochures, websites. If you want to do a branding, legals for contract of sales, owner's corporation and photography. You might need to take photos of what you're selling. Under miscellaneous we've got building insurance, lawn mowing, account commercial evaluation, bank fees, house removals.

Now why do I have this here? I have this here because you can actually use these things as a checklist, especially when you're doing your detailed financial feasibility. However, this video is actually not for detailed financial feasibility, but I wanted to show you what's actually involved in a detailed financial feasibility. Let's look at a detailed financial feasibility applications that I have developed. If you're part of the Property Development System or you've invested in Property Development System, you actually get a two-year license of this software for free. For this video, it's only to get an understanding of what it actually covers.

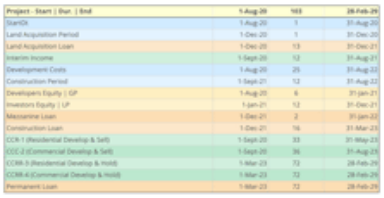
It's got a project planning sheet where you plan your project, and basically you allocate what kind of time period, what kind of expenses will occur. Based on that planning, you actually come in and you start putting in the details. You select their GSC. This side of the application is all about allocating cash flows based on the different periods where those costs will occur. Don't let this thing scare you, because it is not scary at all. I explain this application in over nine different videos step-by-step, so you can understand it really clearly especially if you invested in Property Development System.

This application actually comes pre-populated with the professional fees. The basic difference between a two-second application, or a two-minute feasibility and a detailed feasibility is that the detailed feasibility will be number one, there will be a lot more detail. It will also include cash flows and all different kinds of financing needs. Then there's going to be a full cash flow and-

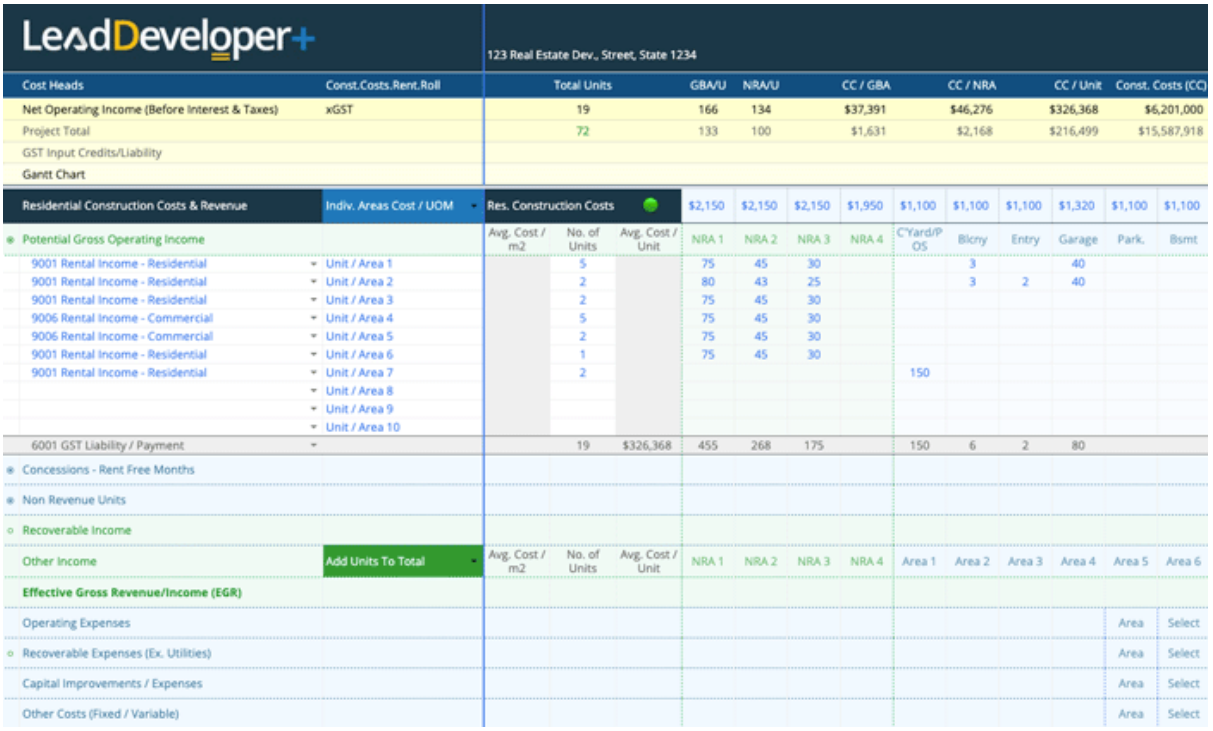
Thanks for watching the video. All links are actually in the description. If you would like to download a free resource, which is a free Property Development blueprint, you can do so from my website by clicking on free blueprint, and you should be able to do everything. I'll see you next time.

Property Development Feasibility Study Example

Following are some examples of property development feasibility study examples from our Lead Developer Feasibility Suite - property development software. For feasibility study the first thing you need to do is plan planning. In this phase you job as a property developer is to project all your development costs across your project's timeline. Here is an example of a project plan schedule.



Example 1: Calculating Net Operating Income

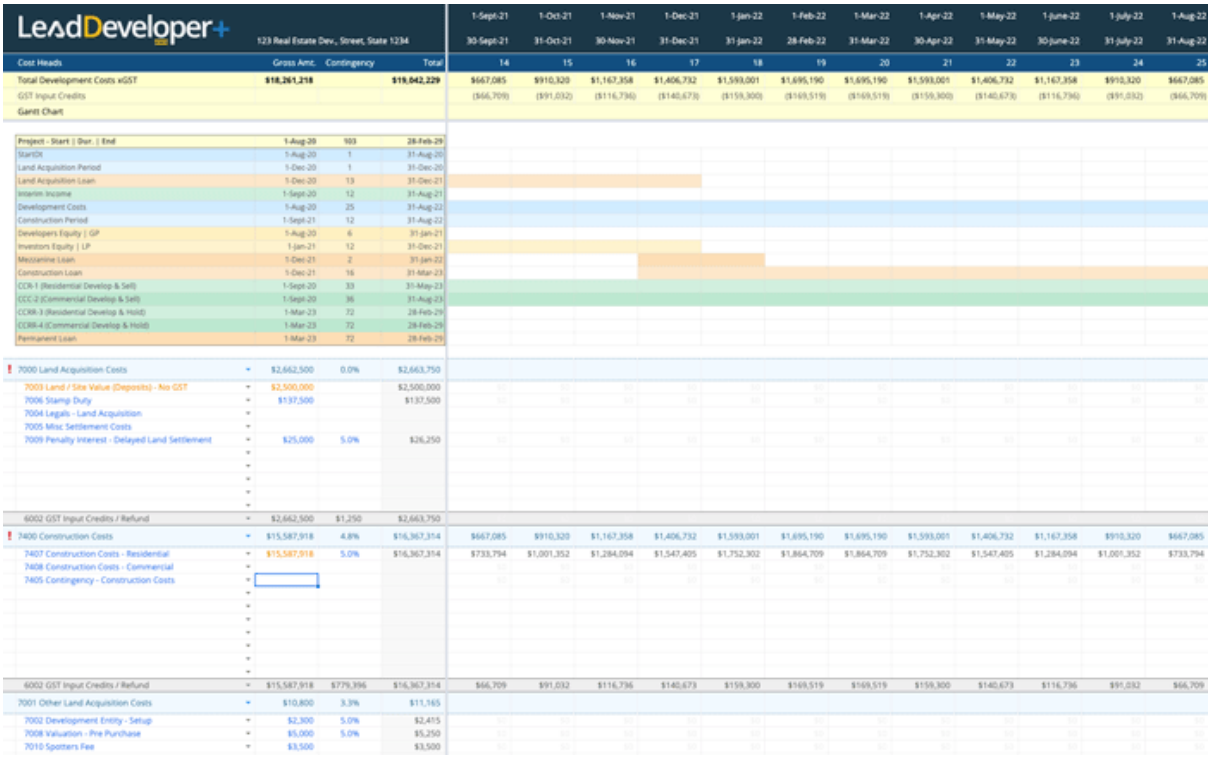


LeadDeveloper+ — 123 Real Estate Dev., Street, State 1234

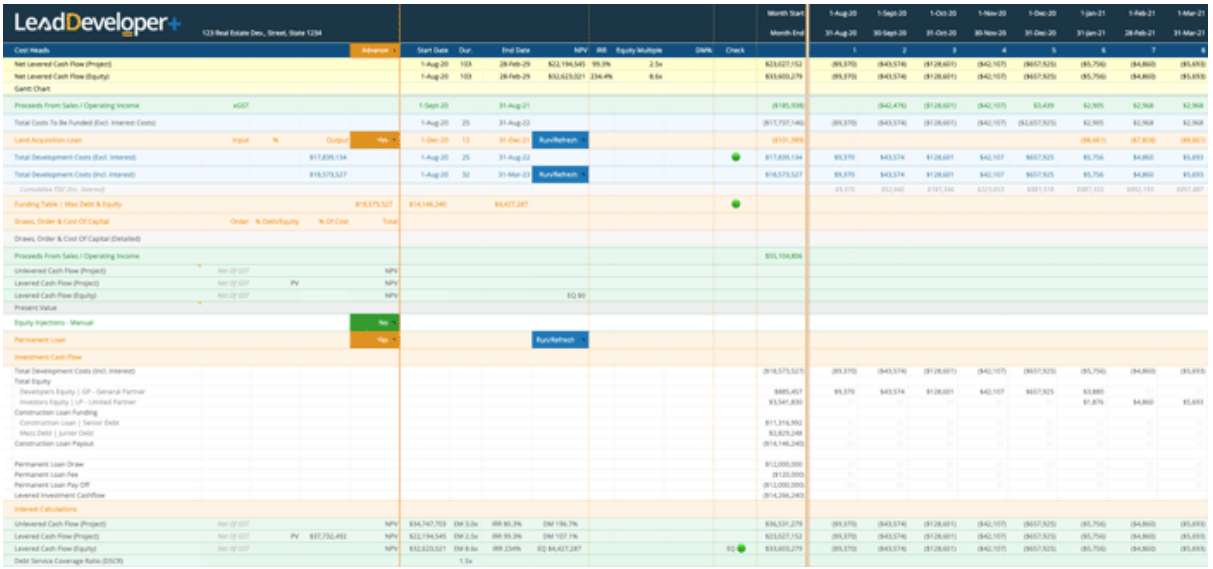
Cost Heads	Const.Costs.Rent.Roll	Total Units	GBA/U	NRA/U	CC / GBA	CC / NRA	CC / Unit	Const. Costs (CC)
Net Operating Income (Before Interest & Taxes)	xGST	19	166	134	$37,391	$46,276	$326,368	$6,201,000
Project Total		72	133	100	$1,631	$2,168	$216,499	$15,587,918
GST Input Credits/Liability								
Gantt Chart								

Residential Construction Costs & Revenue	Indiv. Areas Cost / UOM	Res. Construction Costs	$2,150	$2,150	$2,150	$1,950	$1,100	$1,100	$1,100	$1,320	$1,100	$1,100
		Avg. Cost / m2 / No. of Units / Avg. Cost / Unit	NRA 1	NRA 2	NRA 3	NRA 4	C'Yard/POS	Blcny	Entry	Garage	Park.	Bsmt
Potential Gross Operating Income												
9001 Rental Income - Residential	Unit / Area 1	5	75	45	30			3		40		
9001 Rental Income - Residential	Unit / Area 2	2	80	43	25			3	2	40		
9001 Rental Income - Residential	Unit / Area 3	2	75	45	30							
9006 Rental Income - Commercial	Unit / Area 4	5	75	45	30							
9006 Rental Income - Commercial	Unit / Area 5	2	75	45	30							
9001 Rental Income - Residential	Unit / Area 6	1	75	45	30							
9001 Rental Income - Residential	Unit / Area 7	2					150					
	Unit / Area 8											
	Unit / Area 9											
	Unit / Area 10											
6001 GST Liability / Payment		19	$326,368	455	268	175		150	6	2	80	
Concessions - Rent Free Months												
Non Revenue Units												
Recoverable Income												
Other Income	Add Units To Total	Avg. Cost / m2 / No. of Units / Avg. Cost / Unit	NRA 1	NRA 2	NRA 3	NRA 4	Area 1	Area 2	Area 3	Area 4	Area 5	Area 6
Effective Gross Revenue/Income (EGR)												
Operating Expenses											Area	Select
Recoverable Expenses (Ex. Utilities)											Area	Select
Capital Improvements / Expenses											Area	Select
Other Costs (Fixed / Variable)											Area	Select

Example 2: Calculating Project Development Costs



Example 3: Financing Options



Example 4: Financing Funding Table

	Funding Table | Max Debt & Equity				$18,573,527	$14,146,240		$4,427,287
	Based On Total Costs	LVR/LTC	Lender's TDC	Dev. Equity	Total Costs	Max Loan	%	Dev. Equity
	Dev. Costs To Be Funded	70%	$16,881,572	$669,636	$17,551,208	$11,817,100		$5,734,108
	Other Costs Before Land Financing			$185,938	$17,737,146	$0	0%	$185,938
	Land Financing Costs			$101,989	$101,989	$0	0%	$101,989
	Construction Finance Costs				$445,055	$445,055		
	Mezzanine Finance Costs				$289,338	$289,338		
A	Total Costs To Fund | Effective LVR/LTC	67.6%	$17,615,964	$957,563	$18,573,527	$12,551,493		$6,022,034
	Based On Total Project Costs	LVR/LTC			Total Costs	Max Debt		Dev. Equity
B	Total Costs To Be Funded	70%			$18,573,527	$13,001,469		$5,572,058
	Based On Total Sales	% Of Sales	CCR-1 + CCC-2	Add CCRRs	Total Sales	Max Debt		Dev. Equity
C	Total Sales	66%	$34,989,774	$0	$34,989,774	$23,093,251		($4,519,724)
	Max Loan - Manual				Total Costs	Max Debt		Dev. Equity
D	Total Costs	60.9%			$18,573,527	$11,305,588		$7,267,939
	Max Equity - Manual				Total Costs	Max Debt		Dev. Equity
E	Total Costs	76.2%			$18,573,527	$14,146,240		$4,427,287
	Debt & Equity With Interest Reserve		Debt Pre-Int	Eq. LL Int	Total Costs	Max Debt		Dev. Equity
F	Debt Pre-Interest Reserve	76.7%	$13,509,223	$4,227,923	$18,573,527	$14,243,615		$4,329,911

Example 5: Construction Draw Order & Schedule

Draws, Order & Cost Of Capital	Order	% Debt/Equity	% Of Cost	Total						
Total Development Costs			100%	$18,573,527						$18,573,527
Total Debt	Order	% Of Debt	76%	$14,146,240	Loan Fee %	Int. %	Days In A Year	Loan Fee		$14,146,240
Construction Loan | Senior Debt	4	80.0%	60.9%	$11,316,992	1.0%	5.5%	360	$113,170		
Mezz.Debt | Junior Debt	3	20.0%	15.2%	$2,829,248	1.5%	10.0%	360	$42,439		
Total Equity	Order	% Of Equity	24%	$4,427,287	1-Aug-20	17	31-Dec-21			$4,427,287
Developers Equity | GP - General Partner	1	20.0%	4.8%	$885,457	1-Aug-20	6	31-Jan-21			
Investors Equity | LP - Limited Partner	2	80.0%	19.1%	$3,541,830	1-Jan-21	12	31-Dec-21			

Example 6: Project Metrics & Gantt Chart

Example 7: Sensitivity Table

Sensitivity Analysis

Sales	6.5%	6.5%
Costs	3.0%	3.0%

Total Rev. $55,104,806

Total Costs $21,501,527

Development Profit

Cost \ Sales	-13.0%	-6.5%	0%	6.5%	13.0%
-6.0%	$27,729,746	$31,311,558	$34,893,371	$38,475,183	$42,056,995
-3.0%	$27,084,700	$30,666,513	$34,248,325	$37,830,137	$41,411,950
0.0%	$26,439,654	$30,021,467	**$33,603,279**	$37,185,091	$40,766,904
3.0%	$25,794,608	$29,376,421	$32,958,233	$36,540,046	$40,121,858
6.0%	$25,149,563	$28,731,375	$32,313,187	$35,895,000	$39,476,812

Dev. Margin On Cost

Costs \ Sales	-13.0%	-6.5%	0%	6.5%	13.0%
-6.0%	129.0%	145.6%	162.3%	178.9%	195.6%
-3.0%	126.0%	142.6%	159.3%	175.9%	192.6%
0.0%	123.0%	139.6%	**156.3%**	172.9%	189.6%
3.0%	120.0%	136.6%	153.3%	169.9%	186.6%
6.0%	117.0%	133.6%	150.3%	166.9%	183.6%

Dev. Margin On Revenue / Sales

Costs \ Sales	-10.0%	-5.0%	0%	5.0%	10.0%
-6.0%	50.3%	56.8%	63.3%	69.8%	76.3%
-3.0%	49.2%	55.7%	62.2%	68.7%	75.2%
0.0%	48.0%	54.5%	**61.0%**	67.5%	74.0%
3.0%	46.8%	53.3%	59.8%	66.3%	72.8%
6.0%	45.6%	52.1%	58.6%	65.1%	71.6%

FAQs

What is a feasibility study in property development?

The feasibility study is the first and most crucial phase in the project. That's where lands are assessed based on their size, quantity, price, location, kind, and other characteristics. At this point, we decide if the land is worth examining.

What are the five major dimensions of a feasibility study?

The frame of description, situational threats, the frame of great potential, the geometrical frame, and the frame of dominant and contingencies strategies are the five frames of study.