

PROPERTY DEVELOPMENT

S Y S T E M

www.PropertyDevelopmentSystem.com.au

Financial Feasibility

Feasibility Study – Do the numbers stack up?

- Will the end product sell at a price you think after it is complete?
- Will paying X amount of dollars for the land justify the end value of the townhouse at Y price?
- **What should I pay for the site?**

Financial Feasibility

- Determine financial viability and profitability.
- Thumb Rule – Feasibility MUST stack up at current market level.
- 2 Second Feaso

Who should do it?

- Someone with complete knowledge of the entire development process.
 - Development Manager
 - QS

Financial Feasibility

- Evolutionary process
- Only and Estimate
- Has to be just right, not more not less
 - JUST RIGHT

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

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

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

2.23% Average

Land Acquisition Costs

1. Purchase Price
2. Legals
3. Stamp Duty
4. Buyer's Agent Commission

Finance Costs

- Brokerage Fee
- Establishment Fee
- Valuation
- Interest
- Annual Fee
- Admin Fees

Drawings & Professionals

1. 3D Artist Impressions
2. Architectural Drawings
3. Civil Drawings
4. Electrical Drawings
5. Hydraulic Drawings
6. Joinery Drawings
7. Landscape Drawings
8. Mechanical Drawings
9. Re-Establishment Survey
10. Structural Drawings
11. Working Drawings
12. Engineering Drawings

Reports

1. Arborist Report
2. Asbestos Report
3. Building Surveyor
4. CHMP (Cultural Heritage Management Plan)
5. Dilapidation Report
6. Energy Report
7. Environmental Audit/Survey
8. Feature Survey
9. Fire Engineer Report/Assessment
10. Soil Report
11. Specifications & Material Board
12. Town Planning and Conditions
13. Traffic Management Report

Construction Costs

- Building Costs
- External Costs
- Civil Costs (Land Subdivisions)

Contribution & Charges

- Council Fees (Application)
- Services Connection Fees
 - Electricity
 - Gas
 - Water
 - Telephone
- Parkland Contributions
- Council Contribution (# of dwelling/land as a percentage)
- Sewer & Water Contribution
 - PIC Number

Land Holding Costs

- Land Tax
- Rates

Selling Costs

- Advertising
- Commission
- 3D Artist Impressions
- Catalogue/Website
- Contract of Sale – Legals
- Owners Corporation

Misc

- Building Insurance
- Title Registration

COSTS & REVENUES	\$ Total	\$ Per SQM	% of Cost	% of Revenue
Land Acquisition Costs				
Purchase Price	970,000	242,500	38.8%	34.0%
Transaction Costs	55,350	13,838	2.2%	1.9%
Interest Received from Deposit	-	-	0.0%	0.0%
TOTAL ACQUISITION COSTS	1,025,350	256,338	41.0%	35.9%
Development Costs				
Construction (incl. construct. contingency)	1,214,850	303,713	48.6%	42.6%
Professional Fees	161,750	40,438	6.5%	5.7%
Contributions & Charges	35,200	8,800	1.4%	1.2%
Project Contingency (Project Reserve)	70,590	17,648	2.8%	2.5%
TOTAL DEVELOPMENT	1,482,390	370,598	59.2%	52.0%
Other Costs				
Land Holding Costs	2,050	513	0.1%	0.1%
Finance Charges (inc line fees)	-	-	0.0%	0.0%
Interest (at 12% per ann. weighted avg)	130,484	32,621	5.2%	4.6%
TOTAL OTHER COSTS	132,534	33,133	5.3%	4.6%
TOTAL PROJECT COSTS (before GST reclaimed)	2,640,274	660,068	105.5%	92.6%
GST Input Credits Reclaimed	(138,109)	(34,527)	-5.5%	-4.8%
TOTAL PROJECT COSTS (after GST reclaimed)	2,502,164	625,541	100.0%	87.7%
Total Sales Revenue	3,120,000	780,000	124.7%	109.4%
Interest on Pre-sales Deposits	-	-	0.0%	0.0%
Selling Costs	(72,000)	(18,000)	-2.9%	-2.5%
NET SALE PROCEEDS	3,048,000	762,000	121.8%	106.9%
Net Rental Income	-	-	0.0%	0.0%
TOTAL PROJECT REVENUE (before GST paid)	3,048,000	762,000	121.8%	106.9%
GST Liability	(195,455)	(48,864)	-7.8%	-6.9%
TOTAL PROJECT REVENUE (after GST paid)	2,852,545	713,136	114.0%	100.0%

PERFORMANCE INDICATORS

Development Profit *1	350,381
Dev. Margin on costs (net of selling costs)	14.00%
Dev. Margin on revenue	11.50%
Dev. Margin on revenue (exc GST)	12.28%
Residual Land Value (Target Margin) *2	760,475 (at 20% target development margin)
Maximum Debt Exposure	1,560,811
Debt to Value Ratio	50.0%
Date of Maximum Project Overdraft	Jun-2015 (Month 20)
Breakeven Date for Project Overdraft *3	Jul-2015 (Month 21)
Breakeven Date for Cumulative Cash Flow *4	Jul-2015 (Month 21)
Net Present Value *5	193,124 (at 10% per ann. discount rate, annual rests)
Benefit Cost Ratio *6	1.0670 (at 10% per ann. discount rate, annual rests)
Internal Rate of Return (IRR) *7	18.83% (per ann. annual rests)
Residual Land Value (based on NPV) *8	1,157,470
IRR on After Interest Cash Flow *9	13.54%
IRR on Equity *10	19.27% (\$0.97m Equity Contributed)
Equity to Total Project Cost:	39%
Profit : Equity Ratio	36.12%