BE DEVELOPER

TABLE OF CONTENT

NOTES TO THE READER

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WHAT IS A PROPERTY DEVELOPER?

Real estate development, or **property development**, is a multifaceted business, encompassing activities that range from there innovation and re-lease of existing buildings to the purchase of raw land and the sale of improved land or parcels to others. Developers are the coordinators of the activities, converting ideas on paper into real property. Real estate development is different from construction, although many developers also construct.

Developers buy land, finance real estate deals, build or have builders build projects, create, imagine, control and orchestrate the process of development from the beginning to end. Developers usually take the greatest risk in the creation or renovation of real estate and receive the greatest rewards. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design, obtain the necessary public approval and financing, build the structure, and lease, manage, and ultimately sell it. Developers work with many different counterparts along each step of this process, including architects, city planners, engineers, surveyors, inspectors, contractors, leasing agents and more.

GETTING STARTED IN PROPERTY DEVELOPMENT

If you are considering developing property as a way of making money, you need to consider a number of factors.

Educate yourself

The best ways to learn about developing property are to read about it, enroll in a course (or two) and very importantly, speak to successful property developers.

This book covers an introduction to property development. For more information I would highly recommend you visiting bedeveloper.com.au.

When looking to do courses, select reputable courses. Beware of property spruikers who promise the world and deliver very little.

Talk to Developers

Reading and studying property development is great if you want to learn about the theory but if you want to accelerate your learning process, speaking to a successful property developer will prove invaluable. When starting out it can be challenging to approach and connect with people you don't know, however the opportunity to network with likeminded property investors/developers through online forums, chats and networking functions is one of the quickest ways to learn.

Where to build

Once you've gained some knowledge, it is time to start looking at where to buy property for development. It's great risk to be a trend-setter in property development. The safest option is to develop where others have already built new homes. Consider the micro-location. Is the block of land in a nice street? Is it close to shops and transport? If you're building for families, is it close to schools?

Council

Before you purchase the land, you need to become familiar with the local council's rules and regulations as they will generally be the body that will grant or refuse your Development Approval (DA). You need to consider the zoning regulations. These are all set out in DCP/LEP/Planning Control document but you need to be aware that every council has a different set of documents and some of them are quite lengthy 500 to 600 pages! Settle down with a cuppa or three.

Finance

Borrowing money to fund a development is quite different to borrowing money to buy and hold an investment property. Firstly, the interest rate is higher; commonly 1% to 2% higher than a typical home loan. Secondly, the Loan to Value Ratio (LVR) is not as generous as it is when buying a well located residential property for which banks will often lend up to 95% of the value of the property you wish to purchase. When it comes to property development, the bank will lend you approximately 70% of the value of the land and 70% of the value of the construction costs. In other words, you'll need a lot more of your own money (or equity) toward a development versus to a property you wish to buy and hold for the long term.

Tax

There are a number of tax issues when developing property but the most important one is Goods and Sales Tax (GST). Generally residential property investors don't need to take into account GST but as soon as you get involved in developing property, GST may be payable. However, you may be able to minimise the GST by utilising the "margin scheme". Speak to your accountant about this.

Don't give up

If this all sounds too hard, don't give up. As a beginner, you might wish to employ a town planner to help you. Town planners are skilled to deal with the Council for you, which can be the most difficult part of the property development process. If you plan to do a number of developments, you can learn from us at : bedeveloper.com.au. We are able to not only locate the development site for you but also willing to take on tasks such as project management for your projects.

Despite an extended period of doom and gloom in the property world, it seems the market is finally picking up.

With property prices tipped to rise 25% over the next five years and the introduction of government schemes such as First Home Buyer's Grant for New Homes and Funding for Lending providing greater access to finance for buyers, now could be the perfect time to start a property development business.

If you're keen to catch the market on a fast upward streak, read our eight simple steps to property development success and get scouting for the perfect investment opportunities NOW! More can be found on our website: bedeveloper.com.au.

1. Create a property development business plan

Even if you're planning on starting a property development business part-time, and aren't sure if it will become a full-time business or if it's just an additional way to make cash, it's still sensible to have a property development business plan. You need to set specific and measurable goals around what you want to achieve from your property venture as well as step-by-step outline of how you will achieve your objectives.

2. Buy-to-Let or Buy and sell

One of the key targets you'll need to identify in your business plan is your exit strategy. Is your plan to buy-to-let or to buy and sell? Buy-to-let offers a longer term strategy, and enables you to build up an extended property portfolio in order to supplement, or eventually replace, your current salary. Buy-to-let mortgages are readily available, but you need to bear in mind that the Australian Taxation Office (ATO) views income generated from rental properties as a salary and therefore the income is taxable.

Buying and selling offers a shorter term strategy to quickly increase your capital. You are much more dependent on the market conditions and it is certainly more risky – although it does offer a more instant return-on-investment. Properties sold incur Capital Gains Tax (CGT) and you may be eligible to get 50% discount on CGT, if you have held property more than 12 months.. Ensure you consult your tax advisor or an accountant regarding the rules around income and capital gains tax advice.

3. Always consider the rental yield and return-on-investment

If you're planning on a buy-to-let strategy, the rental yield is essential. While even if you're hoping to sell you need to be prepared for a volatile market and in a recession you could get stuck with property you can't shift. Rental yield is calculated by measuring annual rental income against the value of the property. Rental yield is subject to the area you're purchasing or developing residential property, however 7% is considered a good gross yield and this can be increased dramatically when letting a property to multiple occupants (student lets for instance). When selling properties you need to aim for a minimum of a 20% return on your capital.

4. Location, location, location

Arguably one of the most overused phrases in property development – but it really is all about the location. Not that you want to buy in a location that's already deemed great (a common mistake), you need to be able to spot an area that's on the rise and buy early, when there's the greatest chance of making a healthy profit. Look for areas with growth drivers such as government spending, commercial/industrial investment and gentrification where other developments are taking place or are planned.

5. Don't pay over the odds

Market research is essential to ensure you buy at or below market value. In property development you make more money when you buy than when you sell so negotiate hard when it comes to the asking price. Sites such as realestate.com.au and domain.com.au are great help with comparing similar sales to the property you are purchasing in a given area. You also need to be wary of structural issues or other external factors such as unruly neighbors which could have an impact on a property's value. Without sounding pessimistic, you need to always consider the worst case scenario, if you still think it's a worthwhile investment it probably is.

6. Timing is crucial

It's important you don't rush into buying a property. It can be easy to get swept away by real estate agents who insist you'll be missing out on the best deal ever if you don't buy 'x' immediately but you need to spend adequate time getting to know the market and area you're buying in. However, once you have found a suitable property in the right location, it pays to move quickly.

The quicker you can turn a property around the better, as the sooner the development is finished the sooner you can make a return on your investment.

7. Tailor your developments for your buyers (or renters)

It's essential to tailor your development to the demand in the area you're buying in (a key issue to address in your development business plan). Is the local market for students or for families? Is it worth creating a very high-spec property or will simple fittings be more suitable? It's all too easy to go over budget creating your dream property but you need to keep a tight grasp on your finances with your target buyers or renters constantly in mind.

8. Ensure you have suitable property development finance in place

Becoming a property developer requires money, and lots of it. You also need to bear in mind that until you sell your first property your money will be tied up leaving you unable to grow or expand. It's essential to ensure you'll be able to raise the necessary finance you'll need. Banks will have dedicated property finance experts that can advise you on available and suitable funds.

For a detailed step-by-step guide on how to start a property business visit website: bedeveloper.com.au.

BOOST YOUR PROFIT AS A DEVELOPER

Gone are the days when developing property was available only to multimillionaires and high-rollers. These days anyone who is savvy and has some investment experience can become a successful property developer, but it is not for the faint of heart. We are specialist in Development potential Properties. We can tell you everything you need to know about making the transition from being a property investor to property developer. In Part One of the series we will explore the first steps you need to take on the road to becoming a property developer. These include:

1. How much money you'll need to get started
2. How much research you should do
3. Planning your exit strategy
4. Gathering your team of experts

So you can get started by visiting our website: bedeveloper.com.au.

Part One – Breaking ground

To be a successful property developer you need three qualities: vision, determination and guts. It is not an easy road, but developing property can be very rewarding not just financially, but creatively as well. Seeing your vision come to life, brick by brick, tile by tile, can be incredibly inspiring, and the goal at the end is to achieve a very healthy profit. Successful property developers are a bit like movie producers; they assemble a highly talented team of people and skillfully lead them to develop a profitable outcome. Developers need to be proactive and make things happen. They must also be creative, flexible and adaptive to take their project through the development maze, not to mention all of the bureaucratic red tape that's involved with council applications, zoning restrictions and the like. As a developer, you need to work hard, have patience, remain focused, and have a burning determination to succeed.

So do you have what it takes to be a developer? Before you begin, ask yourself these questions:

1. Is this what I really want to do?
2. Do I have enough experience in property investing?
3. Financially, can I take on any unexpected expenses?
4. Do I feel resilient enough to deal with stressful situations?
5. Am I time poor, or can I commit my time to this project?
6. Have I done enough research?
7. Do I know who I need to help me?
8. Is my partner, family, support base on board?
9. Am I sure the reward at the end will be worth the effort?

If the answer is yes, the next question you need to ask is: 'How much money will I need?' While some lenders are prepared to offer up to 95% of the purchase cost for an existing residential dwelling, a potential developer who is building three or more units can usually expect a different set of requirements from lenders.

Potential property developers should first weigh up the pros and cons of using either a private or bank lender, as requirements can vary greatly between the two.

You've got mainstream lenders like banks, and then you've got private lenders, and there are strengths and weaknesses for both. With banks, typically you are looking at being able to borrow anywhere up to 80% of the cost, as long as that doesn't exceed 65% of the Gross Value (GRV), or total value rate at time of completion, excluding GST. Banks will generally require a level of presales for comfort, meaning 60– 100% of the debt has to be covered, and most loans will incur an interest rate of around 5.5% as well as an application fee. So if a developer already has the presales in place, this is definitely the cheapest option available.

This means in a rising market the developer needs to sell units upfront before commencing construction, all with 10% deposits, completed at today's value, and probably discounted because people can't see what they're buying, You also have to be able to provide full financials for the banks. Private lenders, on the other hand, will take a view of the property and not require presales or financials, but the interest rates will be significantly higher often more than double those of traditional lenders. When you're buying a single property the interest rate is all-important, but development is a commercial transaction where interest and costs are consolidated and revenue is derived from the sales of those properties. So if you take the bank's position with cheaper interest rates where you're selling to cover 60– 100% of the debt, you're probably looking in a rising market of a discount of 5–10% on what the sale price will be in the future, so many developers will take the higher interest rate because the upside in a rising market means extra profit in the developer's pocket. For investors looking to make the transition into property development, a good rule of thumb is to have 30% existing equity for the project. If you can own the land outright you probably have very strong chance of getting the deal across the line without the need for presales. At Be Developer, we recommend buying property at 80% LVR if suitable, or pay little LMI and have some cash reserves to fund the development application cost.

The simple answer to this is: as much as you can

When it comes to property development and subdivisions, there are a number of factors to consider that almost never come into play when investing in established dwellings. Once a land parcel is identified, there are five main points aspiring property developers and investors need to consider before making any offers:

1. Check utility running thru block

Critically, you need to know where any services lie on your block. It's not uncommon to have an easements running through the middle of a block or above the block. If you're not aware of this, you'll get a nasty surprise when the council rejects your application to build over the easement, or there's an additional cost to relocate it around the boundary. Hence it is most important to check the location of easements, as should one be running through the middle of the land, development will be impossible.

2. The topography

If the slope is great, costs to build will soar. If the slope is down and away from the street, and if the storm water drains are on the street, then you'll need to access the storm water legal point of discharge (drain) through the neighbor's house, and this will require easement thru their property or use of alternative expensive methods (if permissible by local council). If you cannot visit the property, using Google Street View maps provides a broad perspective of whether the block is flat or sloping. If it is possible to see the land in person, it is wise to assess whether the back fence is more than hip height higher or more than a meter and a half lower than where you are standing. We can make this easy for you by providing our services and by contacting the local council's development department and by checking the easements. It also wise to check the location of storm water points of discharge and sewerage outlets.

3. The title and the boundaries

Ensure that the land size you are looking at buying is the size given in the property advertisement, particularly the size of the street frontage. In many cases, there are significant building restrictions for narrow blocks with small street frontages. It is best to take a laser distance measuring device or tape measure to the inspection, if possible, and double checking the document of sale and the vendor's statement.

4. The council

Every council has its own planning departments and guidelines (For a quick overview check out Zoning Jargon at bedeveloper.com.au). While they adhere to the state-based planning requirements, each council has its own interpretation of those guidelines. It is important to know what restrictions exist for building on the block or if you plan to subdivide then what needs to be satisfied to get the process through council smoothly. Rocking the boat with the council increases the costs of the project and can significantly erode profitability. Most of information about subdivision requirements is available thru council's website, or Duty Town planner at council can provide more information.

5. Consider overlays

Reports should be available from the local council's Department of Planning.

Environmental

It may be that you can't remove significant trees and therefore you can't build that second dwelling. Ensure you have done a tree assessment and reviewed council restrictions.

Heritage

Your proposed development may carry local heritage value for the community, restricting your ability to develop it in the way you want to.

Indigenous

Check for overlays that govern the sensitivity of historic land sites for indigenous and restrict activity, including subdivision and building, on the site.

Flood

Properties in flood zones requirement can be severely restrictive due to the risk of the 100-year flood.

Special Overlays.

Some council may impose special overlays, such as landscaping, parking and development contribution overlays. This is best checked with the local council or in the planning certificate in the contract of sale.

Once your five land points are covered, it is a good idea to make a checklist of questions about your project to see if it fits in with the surrounding area. We suggest answering these questions before making an offer on any land:

1. Is this development going to work in the area, and is there a need for it?
2. Is this an area I would like to live in and raise my family in?
3. What are the building costs in the area?
4. What are the sales estimates from agents?

While all these points are critical to achieving development success, one of the most important aspects of your research is to calculate how much you can afford to spend on the land. Remember you make money on the purchase, never the sale at the end. It's about buying right, A good rule of thumb is to double the time agents say it will take to sell it and decrease their estimates by 10%. Then work backwards from your end sales figures; work out conservatively what the construction costs will be, including all the 'extras'. Work out what you want for profit, and only then will the amount you can afford to pay for land be revealed.

Do I need to plan my exit strategy before I start? By failing to prepare, you are preparing to fail!

Benjamin Franklin understood the importance of making a plan, and so should aspiring property developers. By knowing what you want to achieve before you start, you are in the best position to accomplish your goal, whether that is adding to your portfolio or realising further investment capital. Pre-planning an exit strategy is an important aspect of achieving success as a property developer. When you get into development you need to have an exit strategy in mind, and that will vary based on the type of developer you are. A good way to decide is by asking yourself, why am I doing this? Am I doing this to build up a portfolio of assets or am I looking to build more capital for the next project? However, we suggest that for first-timers the best way forward is to take one development project at a time before jumping too far ahead. If you're a first-timer, you might plan to continue developing only to find it is too stressful and your intentions may changes. You can plan out where you want to go in the longer term, but each project is different and it is best to work on each project specifically as you go. Always plan an exit strategy before starting a project.

So how do you create your exit strategy?

As mentioned earlier, the first step in creating a solid exit strategy is to start by doing a significant amount of market research prior to the purchase. You need to find a real estate agent that will work with you, really with you, and it's not easy,

You need to meet with at least three, preferably one who is not local, to get a real true idea of the market for your development. Once you decide on an agency you can deal directly with the principal or agent who sells off the plan or new property because they are the ones who understand the market better than anyone. Understanding the viability of your product in the current market is crucial to the success of your exit strategy and project. If your agent gives you a report saying each dwelling in your development will be worth around $400,000, and market research shows previous sales of properties sold around that value are few and far between, then your exit strategy isn't viable. You need to know the development is competitive and within market value.

The same is true for developers looking to use a buy and hold strategy. If the rental amount is overpriced for the local market, vacancy rates will become an issue. We believe all exit strategies should also include a marketing plan, and a good rule of thumb is to allow 1.5% of the end sale price, on top of agent commission. Agents usually include a certain amount of advertising as part of the proposal, but paying for additional marketing material like signs and online advertising may extra or negotiable.

What kinds of professionals do I need to help me get started?

Fast facts what development team might look like:

1. Real estate agent
2. Lawyer/legal advisor
3. Town planner
4. Financier
5. Building contractor
6. Project manager

All projects are different and will require different teams, but there are a few staple professionals that every aspiring developer should have on their team. Regardless of your knowledge and experience in property development it is important to consult experts when it comes to legalities, accounting and management. Employ a good project manager and have a good property-focused accountant and solicitor. Also, find a good development finance broker who will hold your hand right through to the exit of the project, and who is also willing to go in to approach various lender to fund your project at favorable terms to you. Other advisors you need will depend on the type of project they could be town planners, surveyors, engineers, architects, builders, quantity surveyors.

We believe having a mentor who has been through the process, with a successful outcome, can be invaluable. Depending on the scale of the project you're working on, it's really important to have someone there who's done it before and knows the ropes. That can be a friend, a contact who has done developments themselves, a developer, a good architect who can help you through the planning, or a project manager to help you through the construction phase. Contacting a network of professionals who are happy to help beginners. There are a few people around who do this, and there are providers out there who offer a mentoring service, to make that possible visit website: bedeveloper.com.au.

Taking a closer look at your team and why you may need a Project Manager

For beginners, using the experience of a professional project manager can go a long way in ensuring the success of your project. A project manager will take on practically all the day-to-day responsibilities of your project, from overseeing construction to liaising with your team of advisors. But remember, no one understands your goals better than the developer themselves, so while a project manager can be instrumental, they will never be you.

1. **What is a project manager responsible for?** - Every aspect of the project, from conception through to completion, hiring to negotiating, and overseeing the build.
2. **Where do I go to find one? – visit our** website: bedeveloper.com.au.
3. **How do I evaluate them?** - Ask to see what projects they have completed and if you can talk to any of their clients.
4. **How much should I pay?** – In current market, you are looking at 2-3% of project cost, but most will quote based on the project.

Builder

Without a builder your project will never be more than an image in your mind. All land parcels are different, and your project is just that – yours, which makes it unique. A builder needs to be able to consider your development from an individual perspective and work well with the rest of the team to see your dream come to fruition.

What is a builder responsible for?

Facilitating various trades in a construction project.

Where do I go to find one?

website: bedeveloper.com.au.

How do I evaluate them?

Check their license with the state governing authority.

How much should I pay?

This depends on the building quality and timeframe. Should you be unsure, check rates or quotes by obtaining multiple quotes, or engage the services of a quantity surveyor.

Importance rating out of 10:

If starting out, then 10 – but more experienced developers generally end up becoming the builder.

Lawyer/legal advisor

A development project requires cutting your way through a lot of red tape, and gathering, signing and delivering an exhaustive list of documents. A lawyer who is knowledgeable in development and town planning can advise you along the way and is a solid asset. They can also draw up documents and contracts required during the development process.

1. **What is a lawyer responsible for?** – Administrating the terms and conditions of purchase or sale contracts, advising on legal issues, drawing up contracts. They can also be responsible for corporate risk strategy to mitigate legal exposure.
2. **Where do I go to find one?** – Website: bedeveloper.com.au.
3. **How do I evaluate them?** –How well do they understand property and corporate law?
4. **How much should I pay?** – Rates are generally in accordance with state law societies.
5. **Importance rating out of 10: 10**

Accountant

Making a profit is the main goal of developing, so you need a professional on your side who knows the ropes accounting structures and tax. An accountant will ensure you are setting up the correct structure for maximum profitability. Minimising tax liabilities and maintaining the operating budget of your project will also come under the job description of your accountant.

1. **What is an accountant responsible for?** – Property investment tax, strategy and planning, depreciation.
2. **Where do I go to find one?** – Website: bedeveloper.com.au.

3. **How do I evaluate them?** – Do they specialize in property investment? Do they invest in property themselves? How many properties do they have?
4. **How much should I pay?** – $200+ for an annual tax return and $100–$500 for a tax planning session.
5. **Importance rating out of 10:** 10+

Finance broker

There are not many existing or aspiring developers out there who won't need at least some finance for their project. Achieving finance for a development project is different than financing the purchase of a dwelling, so choosing a broker who understands the process is crucial to getting your plans across the line.

1. **What is a finance broker responsible for?** – Home loans, property valuations, getting you access to finance.
2. **Where do I go to find one?** – Website: bedeveloper.com.au.
3. **How do I evaluate them?** – What percentage of their clients are investors? Do they specialize in property investment? Do they invest in property themselves? How many properties do they have?
4. **How much should I pay?** – $0 –$5000– However, most brokers are paid a trailing commission by the lender.

Real estate agent

A solid and reliable real estate agent should be one of the first cabs off the rank when you begin your development process. An agent with knowledge of the area can provide you with feedback on the viability of your project, the design, the local market and sales prices. They will also be responsible for selling or letting your completed project, so ensure they have experience with your type of dwelling.

1. **What is a real estate agent responsible for?** – Advising on the viability of your design, giving feedback on the local market, advising of sales times, selling or renting your properties on completion.
2. **Where do I go to find one?** – Website: bedeveloper.com.au.
3. **How do I evaluate them?** – What is their sales record like? How many properties like yours have they sold? What is their local area knowledge?
4. **How much should I pay**: –Usually 2% plus GST.

Town Planner

A town planner understands the planning regulations and can help you obtain the approvals and permits required to give your project the go-ahead. They need to be familiar with the relevant state and local government planning policies. They can also be instrumental in creating your application documents and proving the merit of your project with local government.

1. **What is a town planner responsible for?** – Advising on state and local government regulations; advising on application and approval documentation; going to bat for you with local government.

2. **Where do I go to find one?** – You can easily do that by asking the people in the neighborhood.
3. **How do I evaluate them?** - What is their approval record like? How many projects do they have under their belt? What is their knowledge of the local area and council?
4. **How much should I pay:** - Most town planners will provide a quote based on work involved.

IMPORTANCE OF BEING A DEVELOPER

Many investors have become wealthy through property investment, very wealthy. But the real profits in the property market are at the wholesale end – in property development.

So let's look at some of the importance of becoming a property developer:

When you become involved in the property development process you could benefit in the following ways:

1. **Savings** - rather than buying properties at retail, you can acquire your investments 15- 20% below their market cost. This is because you don't pay developer's margin, agent's commission, GST, marketing and other costs usually included in the price of buying real estate.

2. **Profits** - at the right time in the property market you can make good profits selling your development projects.

3. **Easier finance** - once you have completed your development project you can approach banks to re-mortgage your properties. They will usually lend you 80% or more of their retail value when completed.

In many instances this is about what it cost you to develop your project and you can take out your initial equity. In other words it's a bit like borrowing 100% of the cost of the property or having "nothing down."

4. Leverage – Following on from the above point you get massive leverage when you have completed the development project. Often you control a substantial property or even 2 or 3 townhouses with little capital in the properties as equity.

5. Tax benefits – owing new properties gives you all the benefits of depreciation allowances giving you a great "after tax" return.

6. Higher rental return – your tenants will pay the retail rents. They won't know that the cost of your property was substantially below the retail price. This means your rental yields will be higher than for someone who bought their property at market value.

7. Security – if undertaken correctly, property development can be very lucrative. If you buy your development site well your investment will always be underpinned by the security of real estate in a prime position.

All these benefits of becoming a property developer allow you to grow your property portfolio faster and safer than most investors. This is of course a strategy that I have used personally to make fantastic returns on property.

Most people think that property development is too hard and only suitable for professionals. In fact most don't have the time, knowledge, skills or contacts to become developers.

That's where Be Developer can help you. Be Developer offers range of service. At Be Developer, We can assist you:

To locate right property

Negotiate and secure property

Finance

With Development Applications and Approval

Project management of Construction process

Ongoing mentoring for Property Development.

You can potentially make a significant profit by developing a residential site and capturing the increased equity and become a property developer without getting your hands dirty!

Of course there is always two sides to the coin and clearly there are significant potential risks with property development. Read the other articles on property development on this site and I'll walk you through the process, and further explain these risks and the potential rewards. Our website is bedeveloper.com.au