HOW TO GET STARTED IN PROPERTY DEVELOPMENT
by Michael Yardney

How smart investors are growing their wealth quickly and safely by building their properties at “cost price.”
Michael Yardney is one of Australia’s leading authorities in wealth creation through property. He was once again recently voted Australia’s leading property investment adviser and is Australia’s most published property author who has probably educated more successful property investors than anyone else in Australia. But he is not a theorist...

Michael is a successful property investor and developer and, as a director of Metropole Property Strategists, his opinions as a property expert are highly sought after and frequently quoted in the media.

Michael’s “Property Update” blog has over 100,000 subscribers and he has been quoted in all major Australian daily newspapers and financial magazines and regularly gives his views on wealth creation and the property markets on the radio. He is also a regular keynote speaker at property conferences in Australia and South East Asia.

Michael bought his first investment property over 40 years ago, in his early 20’s, without a deposit and not understanding the rules of the game. He then went on to build a multi-million dollar property investment portfolio in his spare time. In 1979 he established Metropole Properties, which has become one of Australia’s leading firms of independent property investment strategists with offices in Melbourne, Sydney and Brisbane.

Over the years the multi award winning team at Metropole has bought, financed, advised, invested in, built and project managed over 2 Billion dollars worth of property transactions creating wealth for their clients

Michael Yardney has been featured in:
HAVE YOU THOUGHT ABOUT BECOMING A PROPERTY DEVELOPER?

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

In this report I want to examine the segment of the property market that has benefited me the most over the last 30 years or so– property development.

So what exactly is property development?

Let’s start with the following definition…

Property development is the continual reconfiguration of the built environment to meet society’s needs.

New apartments, townhouses, road, sewers, houses, office buildings and shopping complexes don’t just happen. Somebody must motivate and manage the creation, the maintenance and then the eventual recreation of the spaces in which we live, work and play.

The need for development is constant because populations, technology and our tastes never stop changing.

While renovations and refurbishment are definitely a form of property development, in this report I am going to concentrate on the development of new residential dwellings – duplexes, townhouses and apartments.

To me property development is an extremely creative process and property developers are creators. They take a project from the conception of an idea in their mind through the design and approval phase, financing, construction and then eventually the leasing or sale of the project.

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 this maze.
THE PLAYERS IN THE PROPERTY MARKET

When we have a look at who is involved in the residential market in Australia they tend to fall into one of 3 categories:

1. **Owner-occupiers** - who tend to buy properties with their heart, and will often pay a little bit more than the market price to buy the right property.

2. **Investors** - who tend to buy properties with their calculators based on return. They also tend to pay full retail value for properties; unless they have learned some of the lessons I have described in my books on property investment. In fact many investors pay above market price for their properties against their knowledge. This particularly happens when they buy new apartments or house and land packages from developers and this occurs because the developers set the prices based on the highest profit margins they can achieve considering prevailing property market conditions. I see this a lot with investors buying ‘off the plan.’ Rather than buying at a discount like they hoped, many purchasers of ‘off the plan’ properties have found that when they eventually come to settle their properties, the valuation is considerably lower than the price they paid.

3. **Property Developers** - who buy a property shrewdly, add value and on sell and refinance to make a profit. In essence they “manufacture” properties and manufacture or create capital growth.

Until recently property development area was the domain of property developers and the very rich. Over the last few years a new breed of property players has come into the market. I call them “armchair developers”. This a term I coined in the year 2000 and relates to clients of Metropole who are, or want to be, high net worth property investors and use Metropole’s development management services to allow them to become property developers.

You see...Metropole handles the whole property development process for them, from concept to completion allowing them to become property developers without 'lifting a finger.'

Let's look at the different options available if you want to get in residential property development...
YOUR OPTIONS AS A PROPERTY DEVELOPER

If you want to become involved in residential property development, there are a number of options open to you.

1. You could renovate a property to add value. Many of today’s large property developers started out doing renovations. My first steps into property development were through renovations. I know many beginning developers would like to sell their property after the renovations, but I recommend you refinance your property and take advantage of the extra equity your “manufactured” or created.

2. You could land bank. This is a concept used by large property developers who buy large tracts of raw undeveloped land, sometimes called Greenfield sites and keep their own ‘bank’ of land for future development. You could do similar things as a smaller scale developer. For example, you could buy an old house at close to land value. The block of land should be of sufficient size to have future development potential. This is a great investment strategy because the land component of your property increases in value. And down the track, when you have more funds, or the market conditions are right, you could proceed to develop your property into a duplex or town house complex or whatever.

3. You could buy a property and add value by getting development approval (D.A.) to build new dwellings such as a duplex or units, or townhouses or apartments. By utilizing the land for its highest and best use you are adding considerable value. You then have two options…

   a. You could sell the property with development approval (DA) or plans and permits (as it is called in Victoria) to a builder or developer. They will often pay you considerably more than your cost because you have now taken an element of the development risk out of the project; they no longer have to be bothered with the maze of the council town planning process. Or…

   b. You could proceed with the development project yourself and make the developer profit.

4. If you are prepared to pay a premium, but want to by pass the risk of the development approval process, you could buy land with a development approval (DA) in place and proceed with building the project.

5. If you feel uncomfortable doing it on your own, you could become a property developer using Metropole’s Property Developer Program, where Metropole co-ordinates the whole project for you. You can find out more details at www.metropole.com.au
THE BENEFITS OF BECOMING A PROPERTY DEVELOPER.

Let’s explore a range of benefits that may be possible if you get involved in property development, but then we will balance this out with some potential risks.

As I see it some of the benefits of becoming a developer include:

1. **Savings**: rather than buying properties at retail, when you become a property developer you can acquire your investments at 15% below their market cost. This is because you don’t pay the developer’s margin (which is yours to keep), agent’s commission, GST, marketing and other costs usually included in the price of buying real estate.

2. **Profits**: at the right time of the property cycle you can make good profits selling your development projects. While that’s what most developers do, the really smart ones don’t sell their projects. They refinance them against their new higher value and take out the extra equity that they have manufactured by developing property and use it as seed capital for their next project.

3. **Easier finance**: once you have completed your development project you can approach lenders to refinance your properties. They will usually lend you 80% or more of their retail value when completed. In many instances this is about what it has 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 previous point, you get massive leverage when you have completed your development project. Often you control a substantial property or even 2 or 3 townhouses with little of your own money in the properties as equity.

5. **Tax benefits**: owning 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 prevailing market 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 add up allowing you to grow your property portfolio faster and safer than most investors.**

They allow you to be the owner of high growth properties that are cheap to own, because you get great rental returns and big tax benefits. This is of course why I use this method of investment personally to make fantastic returns.
WHY NOW IS A GOOD TIME TO DEVELOP PROPERTY.

The current property markets offer some of the best development opportunities I have seen in a long time. The Australian economic cycle is moving forward as is the property cycle. We are experiencing strong population growth, but have a shortage of the right type of dwelling stock for new homeowners, existing homeowners wishing to upgrade and for investors.

And this undersupply is likely to be with us for a few years.

I’ve been involved in developing property since the mid 1980's– that's about four complete property cycles. Each stage of the property cycle has its own quirks to deal with but this stage of the cycle, the upturn stage of the next property cycle offers some amazing development opportunities if you know where to look.

Unfortunately there are also risks associated with this (and in act every stage) of the property cycle, so let’s examine the risks of property development…
How to get started in Property Development

THE RISKS OF PROPERTY DEVELOPMENT

I make it sound so easy – there must be a catch and there is. Over the years I have seen many inexperienced property developers and quite a few that I thought were smarter than me go broke.

If it is your intention to become involved in property development you need to realize that there are potential risks. Successful development is simply a matter of understanding the risks… and managing them. So what are the types of risks involved in property development?

Some of the significant risks I have come across include:

1. A **downturn** in the property market leading to lower property values or increased holding costs until the development properties are sold.

2. **Finance Risks**: Undercapitalization – not having enough spare cash or financial buffers to cope with interest rates rising during the development resulting in increased holding expenses and therefore lower profits.

3. Increases in **construction costs** during the project. This was particularly obvious during the last property boom. I know of a number of inexperienced developers who thought that they entered into a fixed price contract yet were hit with cost variations.

4. Changes in the **supply & demand ratio** for real estate market as we are currently seeing in the inner city apartment market. This of course depresses property values and reduces your projected profit margin.

5. Unexpected **disputes with building** or trade contractors or unions, which can cause costly delays to a project.

6. **Changes to the laws** relating to property development could adversely affect the profitability and viability of your development project. Things like the laws relating to zoning and town planning restrictions on land use, environmental controls, landlord and tenancy controls, user restrictions, stamp duty, land tax, income taxation and capital gains tax.

7. Unexpected **delays** and increased holding costs may be encountered when town-planning (DA) approval is required for a development. Councils are currently very slow in assessing development applications and they reject many development / town planning applications. Not obtaining an approval or obtaining one on unfavorable terms is a growing risk for developers. The cost of obtaining approval or fighting council’s rejection in a court of appeal is continually rising. And….

8. Some inexperienced developers find that some of the improvements they have made to their properties **do not result in an increase in value**. They learn the hard way that increases in value do not necessarily occur in line with expenditure on improvements if they overcapitalize.
Many of these mistakes occur because of the inexperience of the developer or their failure to engage a professional project manager. As you can see many of these risks are outside the control of the developer. I know, because over the years I’ve developed dozens of my own project and at Metropole we act as project managers for many clients. We are currently involved in over 70 residential development projects in Melbourne & Brisbane.

We are aware of the risks involved in a development project and this helps us minimize them so that our clients do not get any unpleasant surprises. Our projects are very successful, and over the years I have made good profits out of property development, as have many of our clients.

But I have to be honest and admit that we occasionally run into some of the above challenges in of our projects. We must learn from all our developments. Learn what went wrong and minimize the risks of this occurring again and learn from what went right and repeat this if possible.

Engaging a professional project manager, especially on the first one or two projects, should minimize your risks and may positively affect your ability to borrow development funds, as the banks will have a sense of comfort when you have a professional on your side.

So what is involved in a property development? What actually happens?

Let’s look at the stages of a typical property development project...

An example of a 2 townhouse development in Richmond Victoria, undertaken by a client of Metropole
THE STAGES OF A PROPERTY DEVELOPMENT

Developers follow a sequence of steps from the moment they first conceive a project to the time they complete the physical construction and begin ongoing asset management. While the sequence may vary slightly, usually the development is broken up into the following elements:

- Coming up with the idea
- Refining it
- Testing its feasibility
- Negotiating contracts
- Making a formal commitment
- Constructing the project
- Completing the project and finally
- Managing the new project.

As the developer, you should have an exit strategy at each of these stages. To protect yourself you must always have the option to either to continue with the project develop or have a back up strategy.

I have made property development sound exciting and profitable, and it can be, but it is important for you to understand that the development process is hardly straightforward. Let’s look at the stages of the development of a new duplex, multi unit townhouse or apartment project in more detail.

1. **Pre Purchase**

Here you look for a block of land with development potential. Either to renovate the property and add value or to get a development approval / planning permit to construct multiple dwellings.

At this stage you should already have your finance in place so that you can know your limits. You should also have a team of consultants who can advise you as to the project’s viability. These should include a development manager who can coordinate the whole process or individually - a solicitor, an architect, a surveyor, a town planner and estate agent (to advise honestly on end values and marketability).

2. **Concept stage**

Once you find a potential site you must come up with a concept for it. What can you put on it? How many units? How big? What restrictions are there?

To find out what can be built on the land you next assess the local council’s policy towards development and see how many new units/townhouses can be put on the block.

I tend to have these documents in our office, but they are generally available over the internet at the local council's web site, or in hard copy form from the counter at the town-planning department. You must understand the local council’s requirements for minimum lot sizes for a development and their regulations regarding setbacks from the front, for private open spaces and for car parking.
I would also do a detailed analysis of the neighbourhood character as an important consideration of town planning is keeping the neighbourhood character. It is important to assess what the market wants in that area and what would sell or lease well. It is important to design and build something that is marketable.

I then put pen to paper and do some sketches allowing for setbacks, driveways, private open space (what you may call a back yard) as required by council. Ideally private open spaces should be north facing to maximize their exposure to the sun and these areas often have other restrictions on them regarding their configuration.

I then place garages and parking spaces and leave room for turning circles to drive out in a forward motion as required by council. The amount of land that is left over after all of this will determine how many dwellings and of what size can fit on the block.

After taking into account all the above factors, typically the footprint of the dwellings we can build would take up less than 50% of the land. At this concept stage I would also take into account potential objections from neighbours. In some municipalities you can always count on the neighbours objecting about new development projects and if possible I steer clear of these suburbs.

After all this I finally do some number crunching in my feasibility program. I include time scales, all costs including consultants and construction costs. I include likely end sale values and the profit margin that I want and this allows me to work backwards to find out what the land is worth to me. The maximum price I could pay and still make a decent profit.

If after all this the project is still viable I would consider putting in an offer for the land.

3. Purchase

Now we reach the exciting part – buying the land at a price that would allow me to make a commercial profit using the figures in my feasibility study.

4. Town planning

I now brief my architect to draw up plans that comply with the council’s development guidelines. I usually involve a surveyor to measure up the land and a town planner to help drive the project through the development approval process. Due to the increasing complexity of the town planning process, this stage of the development can take up between 6 and 12 months before you achieve development approval.
5. **Working Drawing and documentation**

Once the Development Approval (permit) has been achieved our architect and our engineers document the working drawings to allow us to get a building permit (also called a Construction Certificate (CC). This stage could take 3 - 4 months.

6. **Pre Construction Stage**

At this stage we obtain quotes from builders and bank approval for the development loan.

7. **Construction**

Finally we get on site to build our project, paying the builder progressively at the completion of each stage using draw downs from our bank loan. This stage can last 6 – 12 months depending on the size of the project.

8. **Completion**

The project is leased or sold.

As you can see the development process for a new multi unit project is a long one – it can easily take 2 years from beginning to end.
How to get started in Property Development

Unfortunately the development process is complicated and I have seen many smart investors turn their hands to property development and lose money. The common reasons this occurs:

1. **No Strategy or Planning.** Some new developers just go out and buy what they think is a development site. Often they just believe the selling agent and haven’t done their own market research

2. **They paid too much** for the property. It’s often said you make your profit when you buy the land. Market knowledge and good negotiating skills are critical to becoming a successful developer.

3. **Poor Due Diligence:** Effective due diligence needs to incorporate many aspects relating to town planning, engineering, financial analysis, demographics, market research. You don’t want to buy a lemon. Having a comprehensive due diligence checklist is essential.

4. **Under Costed Feasibility:** This is related to point 3 above - they haven’t done an accurate feasibility study before purchasing the property. While it may not be hard to get a handle on the income side- the end value of your development by asking agents or valuers, nailing the costs on the expenditure side can be more difficult – particularly for beginners. You need to know all the costs that relate to the project and the likely timing of them.

5. **Incorrect Ownership Structure:** Setting up the correct ownership structure before even looking for a site is critical. Different structures will have different outcomes on taxation issues such as income tax, capital gains tax and GST. An inappropriate structure could cost you a lot of money and may make it difficult to obtain development finance.

6. **Finance Problems:** Obtaining development finance is very different to obtain normal investment finance. Getting the correct finance, understanding your borrowing limit and having financial buffers in place are a critical part of the development process.

7. **Poor Timing:** Some investors timed their property development poorly with regards to the property cycle. Completing a development in the depth of a slump can be disastrous on the end result. As a property developer you have to be one step ahead of the property cycle recognizing that your development project could take up to two years.

8. **Overconfidence:** I’ve seen novice developers became over confident after doing one or two successful development and accept too low a profit margin.

9. **Not Knowing What They Don’t Know:** Some property investors move into the realm of property development not understanding the rules of the game are very different. They don’t know what they don’t know and they get caught.
THE KEYS TO BUILDING A SUBSTANTIAL PROPERTY PORTFOLIO

In my book “How to Grow a Multi Million Dollar Property Portfolio - in your spare time” I have detailed my strategy for building a substantial property portfolio.

The concepts in this report on property development just accelerate all that I have covered in the book.

The basic steps to creating your own substantial portfolio that will one day lead to your financial independence are:

1. **Buy a well located property** and take out a loan for 80% loan to value ratio (LVR) (Never pay above market price.)

2. **Add value** to your property through renovations or refurbishment or redevelopment.

3. **Lease your property** – this should be at a better rent now that you have improved your property. If you have constructed a new townhouse as part of a development project, you should have a flood of potential tenants.

4. **Refinance** your property taking advantage of its increased value because you have bought well and added value.

5. **Extract your deposit** and do it all again!

6. **Never sell!**

**You will speed up this whole process if you think like a developer.**

I’m talking about having a developer’s “mindset.”

Now, just to be clear, this does not necessarily mean literally being a developer, because that just doesn’t suit everyone. What I mean is to constantly think like a developer and always look for ways to add or “create” value, in order to maximize the return on your investment.

As you have learned from this report thinking like a developer, or becoming a developer, is a great way to quickly increase the value of your investments and allows you to build your property portfolio more quickly than the average investor.

It gives you the opportunity to refinance more quickly as you are creating your own capital growth - a great strategy today when there is generally poor capital growth in most of our major markets.

**Think like a developer. Buy like a developer. Add value like a developer!**
SOME FINAL THOUGHTS

It is important that you realize that by becoming a property developer you have created some equity out of thin air $2 + 2 = 5$

If you undertake your development project correctly, the end value of your project will be considerably more than the sum of the all the costs of the project. This extra equity is yours and you don’t pay tax on it – unless you sell the property.

That’s one of the reasons I strongly advocate never selling.

Rather than selling, but by retaining your property and leaving equity in your property, you are effectively saving it, and you don’t pay tax. But just leaving your money in the property is probably not the most efficient use of your funds. By extracting your equity though refinancing and using the funds to finance your next purchase, you are not really spending your equity. You are just making your money work harder and more efficiently for you.

Consider this carefully because it is an advanced finance concept. Extracted equity used to finance further purchases is effectively using your equity to create further equity!

By using the released equity as a deposit for your next property and having a mortgage for the remainder of a new purchase price, it means you are using none of your own money. So the investment return on your funds, the cash-on-cash return is infinite!

There is nothing new bout making these types of profits through property development. The problem is that up until recently this has only been available to those in the industry or those “in the know.” The average Australian does not have the time, contacts or knowledge to become a successful property developer.

That is until now, because Australia’s leading development manager, Metropole Property Investment Strategists helps everyday Australians become property developers through their Property Developer Program. And you don’t have to be a millionaire to get involved and you don’t have to get your hands dirty.

Metropole takes care of everything from concept to completion. As part of its services, Metropole:

• finds the right site to meet your objectives
• undertakes detailed feasibility studies including a comprehensive design and cost assessment
• obtains development approval (a town planning permit.)
• prepares full working drawings and project specifications including engineering services and structural plans.
• obtains building quotes
• appoints a master builder on a fixed time and price contract, checks all contractual arrangements and oversees the construction to completion
• organises full surveying and subdivision services
• sources very competitive construction and development finance for its clients
• Metropole Property Management will then lease your property and manage it for you to maximize your returns.
• keeps you updated every step of the way and most importantly, removes the day to day worries of running a real estate development.

Contact Metropole to find out how you can get started in Property Development - Please call us on 1300 20 30 30 | www.metropole.com.au
Look, no hands!

A full-time ski instructor on the Victorian and Colorado snowfields found the hands-off approach the key to creating a profitable townhouse development in Melbourne's southeast, achieving a $260,000 gain on completion! Shane McNally

As the new millennium rolled around, Victorian-based international ski instructor Bruce Fenwick figured he had two major obstacles preventing him from getting into the property market. Neither, however, was going to stop him breaking through as he developed a double-digit portfolio and ultimately undertook a very profitable small development in Melbourne's southeast suburbs.

The two setbacks? Time and money. In his own words, "ski instructors don't earn a whole bunch of money" and the time spent in the Victorian snowfields during our winter and in Colorado the other half of the year didn't leave him a lot of spare time either.

So, after being rejected by the bank in 1999, he went back a year later while on hiatus from his work on the slopes at Beaver Creek, Colorado, to try again. This time he was told he could borrow enough to purchase a property up to the princely sum of $65,000, which limited him to lower-priced provincial properties.

"Ski instructors aren't in it for the money and I had limited funds available," he recalls. "I asked my bank manager 'can I buy a house' and he said 'no'. Simple as that: 'no, come back next year'. So I went back in a year and tried again and was told that I might be able to afford a property. I was looking at in the Traralgon area. The bank manager tells me I can borrow $65,000. I was as green as, but that low-priced house helped me into the market and got me started."

Eleven investment properties later, Bruce decided to take the leap and buy a small development site when he came across the right sort of property in Melbourne's Bentleigh East. Bruce chose well when he decided to move to the city and change his investment strategy from...
How to get started in Property Development

When presented with the opportunity to purchase the rundown house on a larger block in Bentleigh East, he recognised it as ideal for his plan to build two upmarket townhouses. Unlike so many investors turned small developer, however, Bruce doesn’t have any horror stories of what went wrong in the process. He knew his time was at a premium and he could never take a major active role in the development so he brought in the experts to deliver each stage as required.

“I used a buyers agent to source the property and they had a long list of selection criteria including school zoning, capital growth potential, affordability and ease of working with the council,” he recalls. “It was funny, I’d just signed up... and had to fly to Beaver Creek, an upmarket ski resort in Colorado, where I was working as a ski and snowboard instructor. Pretty much as soon as I got to my apartment in the US, the buyers agent emailed me with a couple of pictures of a cream brick house in Bentleigh East. He said we’d have to move quickly to get it and did I want it? I was used to scanning realestate.com.au for hours, narrowing down the field to about half a dozen and travelling to the area and checking them all out in person and making my offers. This was a whole new ball game for me.”

**OKAY, I’LL TAKE IT!**

Bruce bought the property in late 2009 for $575,000, work started within three months and the whole job was completed by November of last year for around a further $670,000. This included $199,000 for the builder and $42,000 in project management fees – money he says was well spent.

Away overseas for much of the time, Bruce had constructed a pair of two-storey, three-bedroom, side-by-side townhouses within a year, however the whole process took a little longer because he paused for a bit during the global financial crisis (GFC).

The biggest headache he encountered was “messing about” with the floor plans to fit everything he wanted into the designs and the only real casualty was not being able to have the double basins he had planned for the bathrooms.

He wanted everything upmarket for such stylish dwellings but it was a minor concession in a suburb in which median prices increased by almost 29 per cent during the year of construction.

“I couldn’t have asked for a better introduction to small development,” he says. “I know they won’t always go that smoothly but it had few problems and probably came in ahead of schedule.

“It just looked ideal for development. It didn’t have any rocks that needed removing, it was pretty well ideal for developing and the area was right.

“The only negative was a front fence that needed removing so it didn’t fall into the nature strip.

“I had one objection from one neighbour when I put in the plans but that was a fairly minor issue and it was easily resolved.

“Although the original house was a great rental property, it was really always destined to be two townhouses. The block was ideal for that sort of development. So when the time came for it to be demolished, there was a palm tree in the backyard to be removed but really it was pretty straightforward. My project manager kept me informed of what was happening and sent regular pictures.”

**AN ARMCHAIR DEVELOPMENT**

Bruce kept up to date with the progress of the townhouses while doing his day job on the Colorado slopes during the early stages of the development. He was able to keep apprised of the progress via email and quickly respond when any concerns arose.

“Having the lifestyle I have, it really...
Getting started

Bruce Fenwick recalls he had two small windows of opportunity between his work in Colorado — both times a couple of months — to first get into the property market before heading back overseas. He was working on the slopes near Mansfield in Victoria when he finally broke into the market.

I had my finance in place but I was limited in what I could buy so I scoured the internet and just went and looked at what I’d seen online when I got any time off work,” he says.

“Went on a real blitz to get that first property in Traralgon [Victoria] and I got it at the right price. And I think if I didn’t move then and go through with it, I wouldn’t be in the property market today.”

As money became more freely available, Bruce expanded his portfolio in lower-priced regional housing that offered good rental returns and solid cash flow. He was studying property investment at every opportunity and moving quickly before the boom while finance was available.

“I was buying a house every time I came back from the States,” he recalls.

“Then, as the financial situation freed up, on one trip back I bought four houses. The credit market was loosening up at the time and I was experiencing it firsthand. I did a lot of work on that first property myself, which helped give me a bit of leverage.

“Jan Somers was the first property author I ever read and I read her after I bought my first property. I learned new things. I learned to show patience and not react to every market trend and I sold property only as I needed to sell it.”

At one time, Bruce had 12 properties in the “vibrant, growing” town of Traralgon. That included his principal place of residence and one in a location he calls the ‘wrong end of town’ which eventually gave him some financial leverage. The Traralgon portfolio cost him $1,335,000 and, at current value and sold value, has grown to more than $2.2 million, generating more than $850,000 in equity while realising strong rental returns.

“I asked my agent, ‘which one can I sell?’ and she told me the one in the poorer area, but I didn’t sell it for any other reason than it had enough equity in it,” he says. “It was a good price for me and, with the first homebuyers’ scheme buying for the buyers, it was a fair price for them.

“Probably didn’t really help my cash flow situation because I was losing the rental return but what it did do was put some money in my pocket. I had another house in Traralgon with some structural problems so, with cash in hand, I launched into a renovation and it gave me my first experience with development work.”

Bruce recalls he got started on his first serious renovation during an Australian summer that he didn’t go to the US. It taught him how to value-add through a little hard work but it also showed him how much work would be needed for a full-on small development.

“I had a lot of time on my hands and got started with a coat of paint and, before long, I was renovating the house,” he says. “I replastered the kitchen and the living room ceilings. In a house that was probably worth $210,000, it was worth the work and the money. I didn’t want to overcapitalise but it increased the value and gave me some momentum. It also taught me a bit about what to expect in future developments.”

“I learned to show patience and not react to every market trend and I sold property only as I needed to sell it.”
Metropole is very proud to have been able to assist in yet another success story
First development pays massive dividends
With some savvy negotiation and guidance, see how one investor smoothly manufactured more than $500,000 in equity and doubled his rental yield! NICOLE NAVARRO

It makes a big difference when you've got someone holding your hand through the process, particularly on the first small development, says Melbourne-based property investor and now small developer Garry Job, 56.

One day, after turning the last page on a small development book he was reading, Garry decided it was time to finally take the plunge into his first development.

He explains that the concept of having a person or a system mentor his investment decision was powerful.

“It pushes you to make a decision and can help minimise the risks involved. There’s so much available education around – much of it free – that you fill up too many weekends,” smiles Garry.

His career background in property acquisition for major national and multinational companies, along with the various books, magazines and seminars, have helped set Garry up with the skills and knowledge to grow his property portfolio over the years.

“To date it’s been about buy and hold, and in all cases negatively geared,” says Garry.

Garry realised that to continue investing he could only progress by finding either positively geared investments or ones he could easily extract cash from once the project was completed.

He chose to undertake a development project rather than just buy a completed development because he liked the idea of “buying wholesale” by taking the development risk and “renting retail” in an area that he believes will continue to have good capital growth. It was also because with his busy job he didn’t have time to run around doing the footwork himself.

“Transferring from property investor to small developer was about moving closer to a positively geared position. However, small development wasn’t familiar territory for this ‘buy and hold’ investor. So he needed help.

THE FIRST MOVE
Garry’s current job brought him back to Melbourne in 1999, so for his first development, completed in July last year, it seemed natural to keep it close to home.

It’s not that he’s reluctant to venture further afield; his two other investment properties are actually interstate – a house at Victoria Point close to Brisbane and an apartment at Rushcutters Bay in Sydney – but for a project significantly more complex than a buy and hold, he felt that by keeping it ‘local’ he could keep a closer eye on its progress.

Before a location and property was sourced, Garry followed up with a project development company he’d become familiar with through an educational book he’d read on small developments. The book had already provided some basic ‘how to’ information, so now he was ready to start with the help of a mentor.

Garry felt comfortable with the company’s approach because it operated in a metropolitan market and suggested a suburb close to the Melbourne CBD that has shown consistent capital growth, and where he could reasonably expect to undertake a development to manufacture some equity. So he decided it was worthwhile to pay the project development company a total of $83,985 to be handled through the process.

The first appointment was to undertake a feasibility analysis on what his project financial limits were; to sit down with this company he made a commitment with a $1000 non-refundable deposit. This would be the start of a journey that would see Garry provided with the services of site selection, preparing development applications and obtaining council approvals, providing tender documentation and fixed price building quotes, and project managing the construction.

Garry explains that the first stage of the feasibility analysis was the ‘make or break’ of the project because it determined his projections for costs and also for manufactured equity, which at that stage was around $300,000. It was the stage when all the figures were laid out for him; all he needed now was to find a property that fitted the financial criteria.

FINDING THE RIGHT PROPERTY
Included in the cost of the feasibility analysis was a buyers agent service, which cost Garry $17,985 in total.

The project development company had already undertaken some other projects in the Bentleigh East area so was already familiar with small development requirements by that council. Garry says this knowledge and experience really helped speed up the selection process.

The project perfectly matched the

www.apimagazine.com.au
How to get started in Property Development

feasibility analysis. At Bentleigh East the buyers agent found an old and very rundown house on a 608-square-metre block with development potential.

Bentleigh East is a large suburb undergoing a demographic change and gentrification, notes Garry.

"Part of the suburb is in the catchment zone for McKinnon Secondary College. There are several schools easily accessible so it's an attractive area for potential renters."

In late July 2008 when the property was located and presented to Garry, it was perfectly suitable for his budget and purpose.

Unfortunately the global financial crisis was still unfolding and finance was becoming harder to source. Garry says there were five thoughts running through his head:

1. Location — was the suburb suitable for a buy, develop and hold strategy with good prospects for capital growth and then easy rentability?

2. Costs — what is the reasonable amount to pay and how much will it really cost to build?

3. Time — how long will it take from commencement to completion?

4. Finance — will it be available to buy and then to construct? Will I have enough cash flow to cover any unexpected things?

5. Approvals — would council approve the subdivision application?

He explains that the vendor was motivated to sell and negotiable on price, terms and conditions. Here's where Garry's negotiation skills kicked in via his buyers agent, which saved him quite a chunk of money right from the project's starter block.

"Because I didn't know what the real value of the property was I had a look around at alternative sales in the area," he explains.

"The vendor was expecting $680,000 but a nearby similar property sold for $635,000 so I quoted this price and said I would settle on $654,000 on the condition that I get extended terms."

"Fortunately this suited their own personal circumstances to have longer access time, so we agreed that the owner would pay $325 per week on a six-month lease."

Garry negotiated this because he knew it would take time to obtain a planning permit. "I was happy to defer settlement with a

---

**KEY DATES**

- **Aug 28, 2008** Contract exchanged for $654,000
- **Nov 8, 2008** Lodged planning application for subdivision and construction development with council
- **Jan 15, 2009** Planning permit issued by council
- **Mar 28, 2009** Settlement
- **Apr 15, 2009** Subdivision approved by council
- **Oct 30, 2009** Building permit issued
- **Dec 12, 2009** Builder takes possession for demolition and construction
- **Jul 23, 2010** Builder hands over completed project to owner
- **Aug 10, 2010** Units rented
- **Dec 20, 2010** Subdivision registered on title

---

WWW.API MAGAZINE.COM.AU

MARCH 2011 AUSTRALIAN PROPERTY INVESTOR 4/9
How to get started in Property Development

MY DEVELOPMENT

Demolishing the house

Under construction

The final result

six-month lease so I suggested a nominal rent of $320 per week because if they moved out of the house it was in poor condition so I would have needed to spend $5000 just to clean it up," he explains.

So a deal was made and contracts were exchanged in August 2008. Garry had secured the perfect property, with six months up his sleeve for the planning process, subdivision approval and consequently a reduction in his holding costs.

THE FINANCE

It was a two-step process; the first was to obtain funds to buy the property, says Garry. “The house was financed 80 per cent by one bank (arranged through a broker). It was expected they would then fund the construction loan but when it came time to arrange the construction finance they had changed their finance rules and advised they would no longer be financing construction loans for properties held in a trust," he explains.

So 20 per cent of funds were provided by a line of credit (LOC) facility and the remaining 80 per cent was arranged through another lender.

Today Garry has a loan-to-value ratio of 75 per cent and has a LOC buffer available if his combined family income was reduced to a level below what they require to keep the properties running and loans serviced.

PLANNING AND APPROVALS

This stage of the project was a very streamlined process, with Garry’s project manager taking care of everything. This was a relief to Garry whose busy job allowed him little time to handle daily follow-ups.

The designs were drawn based on what the project development company suggested would be of good quality and appropriate for that area. Garry looked closely at the designs and suggested an increase in the ceiling heights from 2.7 metres to three metres downstairs and from 2.4 metres to 2.7 metres upstairs. This was to give the house a “bigger sense of volume inside and allowed for ceiling fans in nearly all rooms”. It was also to maintain a cooler climate on hot days and to give it a point of difference, he notes.

At this stage Garry also arranged for a depreciation schedule on the original house; the quantity surveyor identified almost $100,000 worth of depreciable items. “This will help the cash flow in the early years, if not done before the house was demolished then that benefit would’ve been lost,” he says.

After he signed off on the design concept in November 2008, his project manager lodged with council a planning application for subdivision and construction development. Two months later the planning permit was issued; by this stage it was two months prior to settlement and to the end of the vendor’s six-month lease.

In March 2009 the purchase was settled and the property was acquired under a trust structure and the following month council approved the subdivision. The hunt was on for a builder.

FINDING A BUILDER

As part of his agreement with the project development company, Garry was handed three quotes after the job was put out to tender.

“I met the two lowest-priced builders on their current construction sites to look at the quality of their work and to meet them.”

Garry chose the builder with the second lowest price because he felt their work “had a good feel about it” and they were also confident they could commit to a shorter building time than the tender documents had stipulated. “This would allow me to rent the properties out sooner and get some income coming in," he says.

In October 2009 the building permit was issued and less than two months later the builder took possession for demolition and construction.

The builder was paid in increments at each stage, says Garry.

THE NUMBERS

Purchased a 3-bed freestanding house on 600sqm block in Bentleigh East – subdivided and added two townhouses

Date purchased: Contract exchanged Aug 29, 2008, Settled Feb 29, 2009

Purchase costs:
- Land: $694,000, pre-purchase feasibility and buyers agent fees $17,980, stamp duty $34,310, Finance establishment fees $2,300, conveyancing $1,400. $709,995
- Planning permit (own planning fees $79,800, working drawings $8,700, engineering $4,400, soil test $380, building permit $4,000) $37,250
- Subdivision costs (Subdivision survey $1,750, subdivision legal and fees $3,700) $5,450
- Construction (Project management fee $65,300, energy rating report $330, demolition $30,750, unit 1 - $277,425, unit 2 - $277,425, electricity contribution charge $1,850) $473,980

Interest costs during project $77,911 (Aug 08 - Jul 10)

Total cost $1,504,586
Rent received $10,250 (Mar 09 - Nov 09)
Total cost (adjusted after rent) $1,494,336
Rent per week of original house at purchase $320
Yield at purchase 2.2%
Rent per week current $1,355
Current yield 4.7%
Current value $2,000,000
Equity gain $505,664
Gain as percentage of cost 33.8%
Current loan amount $1,500,000
Loan-to-value ratio 75%

Comments: Yield at purchase = rent x 52 / purchase price. Current yield = rent x 52 / total adj. cost. Equity gain = current value – total adjusted cost. Loan-to-value ratio = current loan / current value

WWW.APIMAGAZINE.COM.AU
While the contract was a fixed price, Garry agreed to pay an additional $10,600 when he requested an upgrade of the air conditioning unit, classier-looking fans and higher quality kitchen and bathroom benchtops (from laminate to granite). “The builder, though, added some features at no cost – more powerpoints in all rooms, bathroom tiles to the ceiling rather than the contracted two-metre height,” he adds.

THE END RESULT
As the project was progressing and everyone was assigned to their tasks, Garry was excitedly watching surrounding property prices rise rapidly. By the end of the project he saw a $200,000 uplift in his price, almost doubling his projected equity. Garry’s projected equity through the project timeline shifted gears from $300,000 to $500,000 with a resounding ‘cha-ching’.

“I asked two local agents their thoughts on the final property value and they each advised somewhere between $1 million and $1.1 million for each property. The market has come off a little so I’m assuming $1 million for each is still achievable,” says Garry.

Two professional working couple families were found promptly through a local agent and his combined rental income each week is now $1355 gross. Garry reveals this income services approximately 70 per cent of the loan repayments each week.

**Metropole** is very proud to have been able to assist in yet another success story.

Metropole Property Strategists

www.metropole.com.au

Melbourne - Sydney - Brisbane
NOW YOU CAN BECOME A PROPERTY DEVELOPER AND ACQUIRE YOUR NEXT INVESTMENT PROPERTY AT DEVELOPER’S COST!

Use Metropole’s project management services – become part of the property developer’s program.

Now YOU can become a property developer and make handsome profits. You don’t have to be a millionaire or a hands-on developer to do it. Your project will be in the secure hands of the Metropole team who have created substantial wealth for their clients since 1979.

**Metropole’s Property Developer Program** offers you the opportunity to purchase property at wholesale prices and lock in immediate profits. We enable you to become what we call an “armchair developer” and get all the benefits of property development without getting your hands dirty. Metropole organizes everything and acts as your project manager. However, at all times you are in control and maintain ownership of the property title together with all profits from the project.

We allow ordinary Australians to become property developers and take the hassle out of your investment by assisting you with all the development expertise you need. From concept to completion. Metropole provides a complete Project Management service that allows you to secure high-performance properties so you can take advantage of the benefits only available to property developers.

Acquiring high performance properties that are cheap to own “at wholesale” (with built in capital growth) helps you build your property portfolio faster.