PROPERTY DEVELOPMENT

A DEVELOPER'S GUIDE FOR SMALL RESIDENTIAL DEVELOPMENTS

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'A Developer's guide for small residential developments'

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Any manual or booklet such as this contains information that the author has experienced firsthand together with information referenced from other authors of the same or similar subjects. The reason for writing the material is to pass on this information to others, so that they may become

better informed about the subject and thus save themselves from expensive mistakes.

Like most people dealing in this area, I learned by participating in the process and making mistakes that cost me money — the surest way to learn! By experiencing the frustrations and worry that come with the territory, I have developed an effective knowledge of the pros and cons of property development. Through this booklet and the accompanying software, I hope to make you aware of the importance of being thorough when dealing with property development and the need to plan each step thoughtfully and to understand that there will be problems along the way, but that these can be overcome.

Although this booklet has been written for all types of developers, the focus in some of the sections is for developers actively looking for suitable properties to buy and develop. This means that the focus will be on educating the reader about the inner workings of the property market then giving advice on how to uncover favourable development sites. For the homeowner deciding to subdivide their own property, many of the later sections will be more relevant to their situation.

Introduction

One of the most exciting aspects of the property investment world is the terrific number of opportunities that are available to the investor in regard to the development of land and property.

Because of the inherent cyclical nature of the real estate market, opportunities are always present for the savvy investor or developer to capitalise on, yet for all the winners, the development trail is littered with those who have become casualties of the process through poor planning and management.

Although this sad fact will always 'dog' the development process, there are still enough people making significant profits in the marketplace to rate this form of investment one of the most exciting and rewarding ways of profiting from real estate.

Building development is an integral part of all Australian states as city planners implement 'urban infill' programs and satellite suburbs grow out from the city core. The classification of property development encompasses a broad range of activities including such things as demolishing an old building and erecting a new building (or buildings), subdividing land or conducting improvements on the family home. In fact, just about any activity that changes the existing use of a property or piece of land can be classified as property development.

Just as there are different categories of development, so there are contrasting scales of development. Big companies develop shopping centres and large buildings, syndicates may develop townhouses and units, and families and individuals may subdivide sites and build. 'First timers' undertake many of these smaller developments, and very often they are existing homeowners who decide to commence a development on their own property or develop a property acquired through their family.

Reasons for developing may be that the local council have rezoned a property thus allowing more dwellings on the same space, the owners may want to downsize their property by subdividing it, or they may have realised that they can employ a cash generation strategy by building one or two additional dwellings on their property.

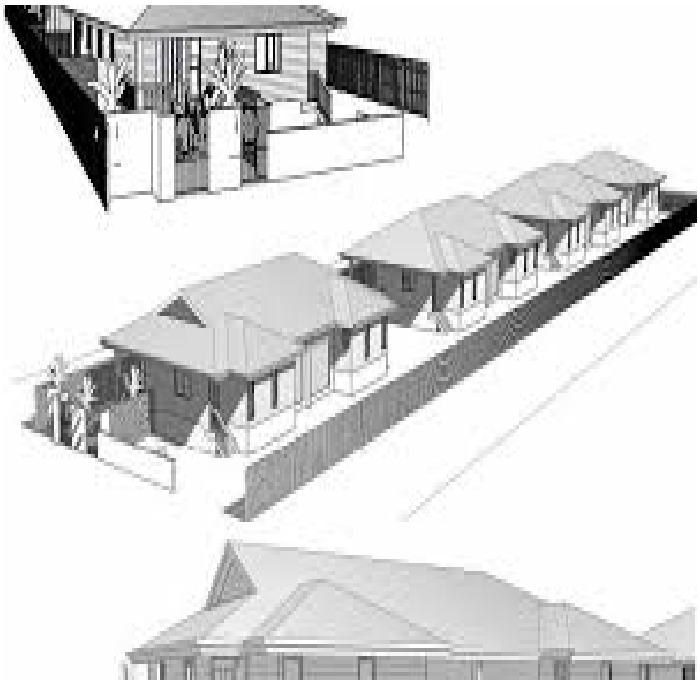
Whatever the circumstance, developing property can be a fast, effective way to create wealth — providing that the development is well researched and carried through to completion without any major problems. Many people who undertake a development for the first time often make simple mistakes and miscalculations that turn out to be very costly. Often, they experience budget problems because they underestimate the real costs involved and are unaware of many other important requirements.

This booklet has been written to help aspiring developers become aware of the pitfalls of developing, so that costly mistakes can be avoided.

The booklet outlines the processes involved from the start to finish of a project. It provides information on how to read

property cycles, how to buy a development property with potential, and — through the guidance of the software provided — how to generate projections that will quantify the feasibility of a particular development.

It is only by going through these processes and understanding them that a budding developer will have a higher probability of making a project successful.



What drives the demand for developing residential property?

Demographic and socioeconomic factors

For first-time developers, 'getting their feet wet' can be a tough time as they make the decision to commit time and funds to a development project. To be able to have the best chance of success, the prospective developer needs an understanding of what factors determine the desirability of a property in a negative and positive manner. There are many factors involved and, of these, perhaps only two or three may influence a buyer's willingness to enter the property market.

It is important to develop an awareness of the factors that stimulate demand as this will lead to greater success in buying in the right areas, which is critical for the development process.

In brief, over the longer term, the demand for housing is dependent on demographic and socioeconomic factors. These include population growth, age structure, interstate migration and income levels. These factors also affect the short- and medium-term levels of demand but are generally overshadowed by the short-term economic variables currently in force. These forces — such as interest rates, unemployment levels, government incentives, the cost of rental accommodation and wage levels — are the emotive factors that can turn a tenant into a homebuyer within a short space of time.

For the developer, these short-term factors are of most interest. The ability to keep up-to-date with the current economic variables and being capable of interpreting them into plausible directions of market demand remains the key.

So, to combine these short-term and long-term aspects into a workable strategy, the developer must use the medium- to long-term forces to establish suburbs with future potential. For example, what areas are people gravitating to? is the age structure getting younger or older? and are income levels rising?

When these areas are identified, undervalued property may be purchased and held until short-term forces come into play, creating opportunities to build and sell into a favourable market; e.g. rising demand and prices.

On the other hand, if the developer is considering buying and developing in a short period, they must focus more on the short-term variables that may provide an area with immediate appreciation. This may mean that a site must be purchased in an area already showing growth, so that demand for the completed development is assured.

For a more detailed explanation of demand for residential real estate, I recommend reading *Investing in Residential Property* by Peter Waxman and Dennis Lenard.

Macro and micro cycles of the property market

As it is very important for a developer to understand what fuels demand for residential property, it is equally essential to comprehend how these forces are created and what effect they have on the property market on a localised and national level. Operating in cycles, these forces have an unequivocal hold on the market, and for this reason, any strategy to deal with property must address how to work these cycles to the advantage of the developer.

The property market consists of two cycles; namely, the *macro cycle* and *micro cycle*. The macro cycle deals with overall market variables such as economic and government factors as well as the performance of other investment alternatives. This cycle is influenced by interest rates, consumer confidence, business activity and government policy reform such as changes to homebuyer-assistance schemes and tax legislation. All these factors are well documented in the newspaper and on TV, so current macro cycle trends are generally easy to keep in touch with.

These varying factors are the major contributors to the machinations of the macro cycle. A good example of government policy creating economic waves in the macro cycle is the recent introduction of the controversial GST tax legislation. The inevitable huge increase of building activity before the 30 June 2000 introduction of the tax launched the property market into a large wave of building activity, as a building boom occurred to beat the price rises associated with the introduction of the new tax. After the implementation of the GST, new home approvals fell significantly as uncertainty enveloped the market in the

post-GST environment. This resulted in lay offs in the building industry and a tough time for everyone in general. After that wave had crashed on the building industry beach, the government decided to launch another wave into the very choppy waters, and this came in the form of an increase in the grant for first homebuyers from $7,000 to $14,000. This hastily created piece of legislation has again started the 'swell' to build, removing a lot of tenants from the rental market as they take up on the government's generosity. This will raise vacancy rates, making it tough for landlords.

These market machinations are generally bad for the economy and make it difficult for the economists to balance the economic ship. It is also disastrous for those investors who buy into the market at unsuitable times and have to sell their properties for a loss if they cannot wait out the downturn.

The implications of this cycle are that a developer or investor who is able to recognise and analyse current economic and demographic trends — and act quickly enough — can sometimes anticipate a property upturn or downturn before the general market and thus enjoy a substantial capital gain.

For the investor or developer, there are two basic approaches to dealing with the macro cycle. These are to try to pick the stages of the cycle or to 'get in' at a perceived low point and ride through a number of cycles. For the developer, who is in the market for the short term, this means that a development must be commenced and completed and on the market between a significant cycle.

This may prove difficult if the window of opportunity is of a short duration and the developer experiences hold ups during any stage of the project.

Shrewd investors have a couple of things going for them, however. The first being that property tends to be a lagging rather than leading sector of the economy when dealing with supply and demand. It tends to respond, after a lag, to key market fundamentals such as interest rates, inflation, demographics and economic growth. It also tends to over respond to such stimuli. This being the case, with due diligence, the developer has an early indicator of the probable trend of the market in the near future.

Micro cycles

As the name suggests, micro cycles turn in smaller pockets of the property market, influencing in some cases, only a couple of streets but generally suburbs or their larger parts. Micro cycles are involved with changing values of land responding to influences that have the capacity to change their current usage.

From a developer's viewpoint, micro cycles can be employed to search for opportunities within the property market.

They have the ability to provide substantial profits if localised cycles are identified and acted upon. To be able to pick micro cycles, a developer must research the market. This may include canvassing councils for zone changes, looking for upgrades to infrastructure such as proposed new roads or impending development projects. This information can be gathered by sitting in on council

meetings or perusing council minutes or newsletters. Many councils also have web sites with up to date information about community developments.

As another source of information, if you subscribe to RP Data services they can make available details of hot spots for development and historical Council minutes involving infill projects, changes to 'R' codes and zoning etc.

To be able to capitalise on the research undertaken, the developer must have the necessary capital at hand so that opportunities can be acted on quickly. Also they must possess the conviction to back up their decisions, as it takes courage and foresight to buy in an area before micro cycles begin to take effect.

Currently (2001), there are a number of opportunities in the Perth market, as there always are, where the macro and micro cycles provide opportunities for the property investor and developer. One such example would be the City of Midland, which for many years has languished behind other suburbs, as its attractions haven't measured up to suburbs closer to the city. Midland, the eastern gateway to the city of Perth, has much historic significance but has remained a little 'untouched'. Paradoxically, these negative aspects are just the factors needed to create development opportunities when the macro and micro cycles begin to shift in these areas.

For Midland, this has begun with the establishment of the Midland Redevelopment Authority (MRA) in 1999. This

initiative has been created to revitalise the eastern gateway to the city and stimulate the redevelopment of the area.

The Draft Concept Plan released in August 2000 outlines the preferred type of development that the MRA believes best satisfies the objectives. (Details can be found at www.mra.wa.gov.au.)

Being a Government-backed project, this augurs well for the future of Midland. As the Government's involvement generates momentum in the area, developers and investors then continue the momentum, which opens up opportunities for medium to long-term investors. Macro factors suggest consumer confidence is at a 25 year low, resulting in depressed property sales; and interest rates for borrowed funds are the lowest in years, which implies a buyers' market. Micro cycle dynamics in Midland indicate changing land use, a government-sponsored redevelopment strategy, proposed upgrades to services and roads; infrastructure increases in the CBD and enlarging of education facilities.

Therefore, it can probably be safely said that Midland will experience substantial growth in the medium-to-long term as these cycles take effect. A 'buy and hold and develop at a later date' strategy would be effective for this suburb.

Timing a development: buy and sell opportunities

Market indicators

Apart from using macro and micro cycles to help identify where to buy and when, there are some other handy market indicators that can be worked through and transposed onto the local real estate market to project a clearer picture of the state of the market and hence the best areas to buy into.

Building-activity and property sales are always the most obvious indications of entry and exit points in the market. If a suburb is subjected to increased building activity levels and sales of established homes, this can be indicative of macro and micro cycles at play. As an example, a particular area may be in demand for accommodation, resulting in increased yields (i.e. increased rents), the suburb may still exist in an underdeveloped state, and there may be a sufficient margin for the developers to derive a comfortable profit from building in that area. All these factors would prove irresistible to developers and consequently building activity would increase.

The Australian Bureau of Statistics (www.abs.gov.au) and the Valuer General Office (www.vgo@wa.gov.au) publishes general statistics pertaining to building activity nationally, state by state and by suburb. By sourcing the building approvals for a number of suburbs, a good indication can be gained concerning where increased building activity is occurring.

More market indicators

There are a number of other indicators that can be helpful in quantifying the state of the property market and which can help identify trends and opportunities in localised areas. They can also be used to determine whether a particular property is overpriced in the current market.

1. The changing levels of — and demand for — rentals is always an excellent indicator of real estate pricing trends in particular areas. Tenants are the most mobile sector of the population. They are the first to create demand for desirable areas of both residential and commercial real estate. Tenants 'bid' up the rentals in what they consider to be the more desirable areas by the simple means of there being more tenants demanding accommodation than the supply of available accommodation in that area.

   Rentals for the existing accommodation increase until the number of available properties (supply) again reaches equilibrium with the tenants wishing to rent (demand). For the developer, strong rental demand may indicate an opportunity to build accommodation in this area as tenants and landlords will be eager to purchase or rent in these areas.

2. The vacancy factor: This measures the average portion of a market that is available for rent at a particular time. This percentage figure traditionally operates in a narrow range of 2–3%. A rate of 1% indicates a lack of rental properties and an opportunity to build. A rate of 4% would mean a glut of properties on the market in that location.

The vacancy rate can be sourced from the various Real Estate Institutes in each state. In West Australia, these statistics are covered in a bulletin called *Market Facts or can be found on the Internet at the REIWA website. (*www.reiwa.com.au*).*

3. The Ripple Theory: Real estate booms always commence somewhere in the core of a large city and emanate outwards, like a stone thrown into a lake. Prices rise sharply in the centre forcing buyers that had considered purchasing there to look at adjoining areas for a property within their price range.

   This trend to seek adjoining cheaper areas is accentuated by the fact that people who own properties in the centre where the price rises first occur, often sell to take advantage of the price rises and purchase a larger property or acreage further out where prices have not climbed. These price rise 'ripples' can take a year to move from the centre of a city to the outlying suburbs. This theory has been almost infallible in the prediction of purchasing opportunities as they occur during a boom.

4. Another rule of thumb in the residential market is that in a sustainable market the median house price of houses is approximately 3.5 to 4.5 times the average earnings. For example, if the average person earns $30,000 per year and house prices in an average suburb are between $105,000 and $135,000, the market is in a sustainable phase. When the median prices starts to be six or seven times average

earnings, the market is regarded as unsustainable and due for a correction.

5. Another factor worth tracking (and which will give an indication of the housing cycle and when to buy property) is the cost of building products. The Cordell Housing Index Price (CHIP) tracks the cost of building material, plant and labour required to build a typical house in Australia.

   By comparing the current median house values with the replacement cost median values, zones of opportunity will become apparent to buy property. That is, when the replacement costs of building a typical house are below the median house price for that area, it is a buy period.

Often just by driving through a suburb some localised opportunities may be spotted. Old, outer lying suburbs may be rezoned or earmarked for an upgrade and the first signs of this will be old houses being demolished and being replaced by gleaming new villas and townhouses. A quick call to the governing council may reveal the reason for the increased building activity; e.g. rezoning of an area, a government redevelopment initiative or the 'ripple effect' flowing through from neighbouring suburbs.

Roughing out the figures

These factors and others can create the opportunities leading to redevelopment. It is at this stage that the prospective developer can start 'roughing out' the figures involved with developing in that particular area. A good developer when looking for opportunities will have accurate information obtained from a builder pertaining to the relative costs involved in building one, two, three or more villas. They will also have a figure for site-works costs needed to prepare an average block for building; e.g. house demolition, earthwork preparation, head works, sewer runs, retaining walls and surveys etc.

These generalised costs can be added to the cost of buying a development site. To this figure, a 10–15% contingency amount should be added to cover inevitable cost blowouts.

Once a total figure has been arrived at, the expected return of selling the dwellings can be calculated, using the sale price of villas, units or townhouses presently being sold in that area (subtract 4% for selling fees). The resulting figure should reveal a 15 to 30% profit on the sale of the development. If the site shows promise, the project variables should be accurately assessed by running the costs through feasibility software, looking at the different variables such as higher interest rates on money borrowed, sale prices reduced by 5 to 10%, and interest cost of holding properties for a longer duration than expected.

If the initial preliminary calculations look promising, contact can be made with the real estate agent handling the sale of the property and further information pertaining to the

property can be gathered. Keep in mind that for a developer to be able to identify a good buy, they must have previously acquired a feel for the prices in the areas investigated.

To do this, they must firstly confirm the general property prices for that area and find out the average return on rentals. Then they must have a clear idea of the type of property they intend to purchase (e.g. size of the block, aspect, elevation and zoning) and the amount of funds at their disposal. Also identify the better streets in the suburb, and supply these relevant details to real estate agents. The clearer the brief provided by the developer, the greater the likelihood of securing the ideal property.

A great Internet site to utilise when trying to gauge the desirability of a particular area is the Valuer General Office web site. This site lists sales price and dates for all properties and is linked directly with property details such as building type, construction, improvements and land areas. Other data such as unimproved land values and gross rental value of any location are provided. Another product termed 'Value Watch' outlines the fluctuations in price of any suburb requested. Data has been recorded every 6 months since 1988, and gives an insight into how a particular suburb has performed over time and how values have responded to influences such as freeway extensions, suburb renaming, railway line extensions etc. Information on industrial land values is also provided. The web address is www.vgo@wa.gov.au .

Unlocking potential value in property

Many properties have the potential to be developed or subdivided in one way or another to better utilise the land. Recognising this potential and unlocking that value, remains the key focus of the developer. Some suitable strategies for accomplishing this are discussed below.

Subdivision

Subdivision occurs in urban areas mainly because of the increased premium attached to the land as this resource is utilised in a more intensive manner. Houses, factories and shops use up all the available land surrounding the CBD, which escalates the land value.

Buildings depreciate over time, so it is not the building that increases the value of the property. For these reasons it is always an effective strategy to purchase properties that have the potential for future expansion or subdivision. In general, this is why units and townhouses don't have the same capacity to realise large increases in price, as these types of multiple dwellings only own a percentage of the land that the complex is situated on.

As a concept, the ability to sell anything in small units of value derived from a much larger unit is a well known cash-generation practice. For example, a baker may bake a cake costing four dollars, after cutting it into 8 pieces, he then sell each piece for $3.50 each thus realising a good profit. This same principle can be applied to real estate.

Many people think they have to go far a field to find viable development opportunities, when in fact they may not need look any further than their own backyard. Depending

on the local zoning regulations, it may be feasible to subdivide or strata a portion of your own property. By splitting a block of land into two separate titles, you then have two options. You can either sell the subdivided portion as vacant land or carry out a development on the land yourself. With the latter option, you have greater control over the style of dwelling built.

Whilst there are significant profits to be gained from the subdivision of land, the costs of holding non-income producing land can be a big drain on cash flow. Any expenses incurred on non-income producing property will not be classified as a deduction for taxation purposes. The majority of expense associated with subdividing vacant land is incurred through compliance with the council regulations on matters such as sewerage, roads, electricity, drainage, curbs and guttering. In addition, hefty fees for surveyors and architects are incurred.

Adding value

An additional way to realise profits from a property is by adding value using various strategies. The state of repair of the property will dictate the best value-adding strategy to employ.

For example, if the worst house in the street is bought, the obvious strategy is to bring it up to the standard of the average, or even better than the houses in the street. To do so may involve a bulldozer and rebuilding or a complete renovation. Careful consideration needs to be taken of the cost of improving the house as compared with purchasing a better quality house in the first place, and whether the

houses in the area are being improved. Also, the structural soundness of the house must be assessed.

A qualified structural engineer should carry out this assessment, so that all structural faults can be identified, and the likely costs of renovations identified.

Value may also be added to a domestic property by improvements in design, sympathetic renovation and refurbishment of a home, adding gardens, swimming pool, courtyards, garages, patios, and decking. All these improvements are relatively low cost in comparison to the initial cost of purchasing the property, and have the potential to return $3 to $4 for every dollar spent on the renovation.

Building multiple dwellings

This strategy is one of the most common and is the next step after the subdivision of land. Unit development requires a larger amount of finance and the risks are higher, but also the return on funds invested can be very rewarding. This is where the principle of selling smaller units from a much larger portion can really work well for a developer. From a large block of land, four strata titled dwellings may be built, resulting in multiple sales.

5. Knowing what the market demands

When considering a development project, naturally you want to maximise your investment return by achieving the

highest possible price. This outcome will only be achieved if you deliver to the market place the type of residential property that is currently in demand.

There is nothing inherently easy about property. Acquiring good information on which to base an investment decision is more difficult than it is with shares. While there is no end of information about a particular company on the stock exchange, such a wealth of cohesive data is not easily available for the housing markets.

Paradoxically however, this last point is the key to the potential attraction of the property. The fact that the market is less efficient than other asset classes means that public information is more thinly spread, opening up greater opportunities for adding value through diligent research.

Its essential to know the market well and be aware of what similar products are selling for, what the competition is nearby and whether or not there is any similar product coming on to the market.

To fast track this process, it's best to use the services of people skilled in this area. Architects and builders who work locally in an area would be one of the first sources of information. Builders may offer their advice and services for free if you decide to use them to build, but for a more detailed analysis, an architect's paid services would be advisable.

An architect may be the more expensive option but it is imperative when developing to get the location and dwelling in demand absolutely right, so that the dwellings

sell quickly and for the expected price. Any delays in this crucial process will cost money through interest repayments and the increased risk that the fickle market may turn away. An architect can advise the developer on the current and likely future 'hot zones' to buy in and the type and style of residence to construct. Also locations and block sizes can be provided that guide the prospective developer in the right direction.

To decide whether an architect would suit your needs, talk to a qualified architect about the services you require and the fees involved. Also look at past examples of their work and talk with former clients.

Real estate agents can also be an excellent source of information, as these people are close to the pulse of the marketplace and through experience instinctively know what the market demands.

A business deal may be struck between the developer and the real estate agent. In turn for providing information about the correct property to buy and the type of accommodation in demand (e.g. three bedroom and two bathroom plus double garage villas), the developer may offer to sell his completed development through the real estate agent for a discount on his selling fee. By doing this the developer buys the right property, builds the correct accommodation and receives a discount on the selling fees. Likewise, the agent receives a considerable amount of business with the chance of on-going business in the future.

The right type of accommodation is perhaps the most critical part of the development process. This may sound like an over-simplified statement but is not to be overlooked as during the critical stages of selling the development, every favourable attribute of the dwellings will need to be thoughtfully planned, as other projects in the area will also be on display and for sale.

If the developer has built three-bedroom, two-bathroom property with a single garage, he or she may find it difficult to sell this if the accommodation mostly wanted is three-bedroom, two-bathroom with a double garage.

Building the right accommodation is also directly linked back to the size and shape of the property purchased. For example, if a developer purchases a property for development, that property must possess the right attributes to be able to support the correct accommodation on the site. If the market demands three-bedroom, two-bathroom accommodation, the block must be of sufficient length and width to fit this.

If the block is unsuitable, the developer must settle for smaller rooms or one-bathroom accommodation, which will affect the selling potential of the project and inevitably, the profit margin

Other information on what homebuyers look for when purchasing new dwellings can be sourced on the Internet from the Australian Bureau of Statistics at www.abs.gov.au. This site has a wealth of information relating to homebuyer trends and demographics involving the property market.

For example, in the year 2000, 51% of homebuyers looking to move to a new dwelling in the Perth metropolitan area claim that energy-efficient features will be factors affecting their buying choice. The most common energy features sought are natural gas access, solar hot water system, insulation and a 'northern aspect'. This is contrast with dwelling sought previously, where only 14% of people rated energy efficient features as important.

These market facts can help the developer satisfy the needs of the current market and increase the chances of maximising the investment in the shortest possible time.

6.0 Buying property suitable for development

6.1 Choosing suitable property

According to large building companies, many people who choose to build multiple dwellings are doing it for the first time. This leads to a large number of people getting their fingers burnt due to the misconception that developing is similar to building a house.

There are many cases of people getting highly enthused about developing, 'charging out' and buying properties for development, only to be stopped dead in their tracks when they discover — through a builder or the Council — that the site is unsuitable for their intentions. There are many factors that may render a property unsuitable, but all these

little nasties that may be lurking for the unwary can be brought into the light if the purchaser is diligent in their research and purchasing procedures.

6.2 R codes

One of the foremost considerations when purchasing property for development is the R code rating. This coding system is used to establish the allowable residential density for a particular area and relates to the number of residential dwellings allowed per hectare (10,000 m^2). To explain further, an R 40 zoning would allow 40 residences per hectare. This equates to a minimum of 250 m^2 of land per title. So an R 40 zoning on a 10 000 m^2 site means, in theory, that it can be divided into 4 lots. (Eg. 10 000 m^2 divided by 40 = 250 m^2).

In reality, the scenario may well be quite different, as there are many other issues unique to each site that must be considered before the zoning can be ratified. For example, permissible plot ratios deal with the size of the dwelling built on the site in relation to the amount of underdeveloped land. Some council requires six meters of clearance between the boundary fence and the exterior wall of the new dwelling when situating an access driveway. This ruling may seriously affect the size of the dwelling, if the block is only 15–18 meters wide. Another stipulation maybe that the outside courtyard area must be, for example, a minimum of 40 m^2, which may also impact on the dwelling size of small blocks or of blocks with uneven shapes, as the courtyard occupies valuable space.

Therefore the R code plus these other regulations, which alter between councils, can make a substantial difference to the suitability of a site for development and should be well considered.

If the worst scenario does eventuate and your development plans are about to go out the window because of zoning problems, there are two options.

1. The building plans may be changed by reconfiguring the dwellings on the site and re-submitted.
2. A decision can be made to lobby the councils to change the zoning.

In most cases, the developer has a right of appeal either to the Minister for Planning or the Town Planning Appeal Tribunal. These departments may overturn decisions made by councils if it is deemed that the development meets relative guidelines.

6.3 Neighbours

Another consideration to be watchful for when purchasing can be undesirable neighbours. Some neighbours can be noisy or exhibit antisocial or damaging behaviour during the construction and sale of the development, which may drive away prospective buyers. To avoid this problem, before buying a likely property spend some time in the street at different times of the day, weekdays and the weekend to access the local neighbourhood and get a general feeling about who your neighbours could be.

You could even go as far as, visiting the neighbours, either side of the property and over the road, informing them that you are looking at buying and developing the property.

Gauge their reactions and ask them if they have any misgivings about the proposal. This may be an important procedure to carry out because if the property is bought your neighbours' signature may be needed if any part of the building structure interferes with the common boundary fence. If the development is two or three stories high, permission from the neighbours may also be required. In most cases, the developer will be obligated by the local council to replace all boundary fences at their own expense.

This situation can become very 'sticky' if the developer has to work with unwilling neighbours or a vicious dog that has to be tied up every time work can commence on the fence.

By using the services of a builder or an architect, these experts can be involved in the purchasing process from the beginning. Once a likely property is found, they can be put to work straight away by first casting an eye over the site to gauge its suitability.

Once a photocopy of the Certificate of Title is obtained, it can be submitted to the building company's drafting dept, who will endeavour to mix and match different size dwellings onto the block in the best possible configuration.

6.4 Covenants and other obstacles

Whilst this is being done, the local council can be contacted to verify details concerning the relevant R code zoning and search for any easements or covenants, which may apply to the property.

Covenants are special restrictions put onto land titles to stop buildings or structures being built over them or to preserve an access way that may be used by other people.

For example, an underground storm water pipe may run the length of a property and have a covenant in place by the town planning department stipulating that no building may occur over this area. Obviously if the pipe ruptures and needs repair this area needs to be kept clear.

Checks will also need to be done with the Main Roads Department, the Water Corporation, and power and telecommunications companies to ascertain where pipes and services are located that may impede any development scheduled to take place.

6.5 Other impediments

It is also the responsibility of the developer to find out if there is any road widening or beautification planned for the street in which the development is proposed.

Other issues such as whether the site has access to deep sewerage and, if so, the positioning of the connection point is crucial as this can decide the positioning of the dwellings and future access and the subsequent costs involved with connection. Added expense can also be incurred if the sewer main runs too closely to the foundations of a proposed dwelling. In this case, retaining material will be needed to shore up the side of the sewer main excavation, to protect it from the subsequent building excavations.

If a corner block is being considered, once again, the council will need to be consulted to obtain truncation and setback regulations. If there is one long boundary and one short,

sometimes the short boundary can be considered by the council to be too close to the intersection to get vehicular access. This could mean that the council may insist that both vehicle accesses have to come off the long boundary, which would severely limit the options available when configuring the dwellings onto the block.

During this process, if problems arise relating to one or more of these stipulations, they can be added into the 'subject of sale' clause section when putting in the offer. If at any stage the property is deemed unsuitable, the 'subject-to' clause may be exercised, so that a more suitable property can be looked for. This is discussed further in the following section.

6.6 Subject to clauses and the Offer and Acceptance Form

When endeavouring to secure a property for development purposes, a number of offers may need to be presented to various vendors before one is successful. If the developer has been diligent with his or her research, opportunities to purchase properties will come along fairly regularly. To be able to secure that ideal property, the developer must make use of clauses within the Offer and Acceptance Form and also remain emotionally unattached to any offers presented to vendors.

By sticking to this advice, the developer ensures their position is covered if it is found during the settlement period that the property is unsuitable. Also, by controlling his or her emotions, the developer will make a decision that is based on his or her financial position and won't pay more for a property than it is worth.

Properties that are up for sale are usually sold through the framework of an Offer and Acceptance Form, which is the mediation between the vendor and the proposed purchaser. The vendor advertises a price or price range that they would like to achieve for the property, and if a purchaser would like to put in an offer on the property, the details of this offer are recorded on the Offer and Acceptance Form. Specifically, the details of the vendor and the proposed purchaser are recorded on the form, as is the amount of money offered by the purchaser.

Another section titled 'Subject to Clauses' allows the prospective purchaser to list any clauses they would like to bring to the attention of the vendor, so that in the event that these stipulations aren't met or other details about the property come to light, the contract can be annulled. This is a very important section from a developer's viewpoint as clauses can be added such as, 'subject to development and subdivision approval'.

This clause allows the developer to verify the zoning status on the property, whether there are any covenants attached to the site and if the site can be subdivided. Other clauses can be added such as 'subject to finance', 'subject to structural engineers report' or 'subject to surveyors report'.

Also a delayed or quick settlement may be negotiated with the vendor, if it suits the developer to take possession of the property at an earlier or later date.

6.7 Initial site investigations

Another factor to consider before purchasing property for development is the nature of the site. If the site has a high degree of clay in the soil, problems may be experienced after building as the clay expands and contracts during the seasons, causing settlement of the dwelling and cracking to the foundations and walls.

Sandy or shale soils are more stable and only marginally affected by seasonal moisture changes, which results in little movement of the base layer below the dwelling.

If the developer is unsure of the soil composition on a particular site, contact can be made with the local council's Building and Health Officers, who may be able to supply subsoil information in relation to that site and also acquaint the developer with the requirements pertaining to previously filled land or land that requires additional filling etc.

If the site considered has not previously had dwellings built upon it then the initial soil appraisal should be very thorough, so that the complete cost of preparing the soil and compacting it can be established. This information should be sourced before entering into any contract of sale or written into the Offer and Acceptance Form as a clause, as site preparations are absolutely vital to get right before building.

Consequences of poor research are hefty costs charged by a builder to bring the site up to the required standard. Builders are liable for life for any dwellings built, and don't

want to be called back to underpin a dwelling that has sunk because of poor subsoil preparation.

Note: Most councils require applicants for a building licence to supply footing plans designed by a structural engineer detailing:

- the extent of rock, sand and clay upon the site;
- its affect on building costs (e.g. excavating footings and drains);
- the grade of the block in relation to the completed dwelling's vehicle access;
- the need for and estimated cost of retaining walls (particularly along boundaries with 'cut' and 'fill'; and
- the depth of the Water Corporation's sewer junction or the extent to which ground within the building area must be raised to accommodate the required fall.

The developer should also consider engaging the services of a land surveyor to ascertain boundaries before purchasing. It is very common for boundaries not to be situated correctly, and can lead to nasty situations, if for example, a developer puts up a new fence on the correct boundary right through the neighbours beautifully paved patio!

6.8 Duplex, triplex and multi-units

Most developments in the Perth area involve building a number of dwellings on a block of the correct zoning. This may involve:

- demolishing any buildings on the site in order to commence building;
- purchasing a vacant block to build on
- or keeping the existing house on the block and subdividing it then building at the rear of the block.

Any of these strategies can be successful if correctly applied to the appropriate site.

Building multi-units can be very profitable, if the block is well located and the dwellings matched up to the buyers' demands. These large developments require substantial funds to carry these projects through to completion ($500,000–$800,000) and demand a great deal more coordination from the building team to bring it together. Experienced developers who have learnt their trades through a number of smaller developments usually undertake these large developments.

Duplex or triplex developments are very similar in their processes. They require a lesser amount of funds ($300,000–$500,000) and upon completion and sale can realise 15–30% return on the invested capital.

Triplex developments generally offer the best return on funds outlaid as at the completion, there are three units to sell instead of two, with the cost of developing the site (i.e.

house demolition, earthworks etc) proportionally being of a lesser amount.

The following table provides some illustrative figures

	Duplex ($000)	Triplex ($000)	Multi-units ($000)
Buy property	140	180	230
Develop property	30	40	70
Build 2, 3 or 6 units at $70K each	140	210	420
Total cost	310	430	720
Sale @ $175k x 2	350		
sale @ $170k x 3		510	
Sale @ $165 x 6			990
Gross profit	40	80	270
Gross % return on funds	**11.4%**	**18.6%**	**37.5%**

Multi-unit projects offer the highest return but also require the biggest outlay of funds, need the highest degree of organisation and carry the greatest amount of risk, as many

more units need to be sold. If the developer has funded the project with borrowed funds and is highly geared, interest repayments can quickly erode profit margins if the dwellings take a longer period to sell than was anticipated.

One strategy used by some developers when considering making a duplex site more profitable, is to buy an appropriate development site with a reasonable house.

By applying to the council, the blocks are then subdivided into two strata properties. The newly created vacant block can then be put up for sale to reduce the debt on buying the initial property. The house on the original portion of land can then be renovated and sold, realising a higher profit than demolishing the house and building two dwellings. Tax savings may be possible by declaring the house to be the developer's principal residence as this removes the liability of paying capital gains tax. (To be able to use this strategy, the owner must live in the house for a period. A qualified tax agent's advice would be necessary.) Alternatively, if capital gains tax (CGT) does apply, the property may be held for a minimum of 12 months to qualify for a 50% reduction in CGT. (Again, consult a tax agent).

Some developers decide not to build at all. Rather, they just purchase sites, demolish any existing buildings, strata title the properties then put the newly registered blocks back on the market. If possible, the developer will 'green title' the blocks, which classifies each block as a separate entity from the others. These blocks carry a higher price as they possess a separate title and don't have to conform to the other blocks.

By using this subdivision strategy, the developer settles for less profit, but benefits from less risk and the smaller capital outlay required to complete this less complex strategy. The best sites for this strategy are corner blocks that can have driveways added to service each new block. Other sites that have 'rear lane access' so that another access point can be created to service the rear block are also well sought for this approach.

7.0 Calculating the costs of developing

7.1 Hidden costs

When looking at calculating the whole cost of developing a property, the majority of the costs will be fixed costs, which can be estimated by contacting local builders. Where many developers and investors fail in their calculations is in the hidden costs of the development. For instance, a sloping block may require extra retaining walls or larger footings, boundary fences may be need to be supported with a post and rail system, or extra sewer works could add $10,000 to $20 000 to the overall cost.

Also, during the construction, certain aspects of the building may need to be altered. When this occurs, the builder can, by right of contract, send out a 'variation to contract' form stating the nature of the change and the extra costs involved. To be prepared for these unexpected costs, contingency funds in the region of 10–15% should be

factored into the development costs to be available during the project.

Another cost that first-time developers tend to underestimate or simply overlook are the selling costs incurred by using a real estate agent and the holding costs; i.e. paying interest on the building loan whilst the development is selling.

People tend to be optimistic when doing their sums and exclude some of the costs at the end, which invariably eat away at the profits at the completion of the project. The likely cost of having a real estate agent sell the development is 3–4% of the sale price, and the interest repayments will continue until the development is sold and the loan repaid.

For these reasons it is imperative that the developer initiates a feasibility study in order to be aware of the effects of such costs.

7.2 The Feasibility Study

A feasibility study is used by the developer to scrutinise the costs associated with the development, determine the sensitivity of the whole enterprise to changes in key variables and to calculate the expected return from the completed project. By subjecting the expected return of the project to a sensitivity analysis, the developer can ascertain just how sound the project will be when exposed to changes to the key variables.

For example, the feasibility study might consider questions such as these:

- What will be the impact on the expected return, if the dwellings have to be sold for a discounted price?
- How much erosion of profit will occur if the dwellings don't sell for 12 months?
- If the interest rate on the finance obtained rises 1 or 2%, how will this affect things?

By asking these questions and running the figures through the feasibility study software, the financial viability of the project can be established and the risks identified.

Now it doesn't require a degree in rocket science to be able to carry out a feasibility analysis on a proposed project. Every detail of the process is explained in the software provided, but to explain briefly, a simple development equation is commonly used and integrated into a profit and loss statement.

This statement effectively tabulates all the costs involved with carrying the project through to completion and sale, and then deducting these costs from expected total sales revenue obtained after the sale of the project.

This figure is the profit margin achieved after the deduction of the GST, but doesn't include capital gains tax, as this figure will vary according to the developer's other financial affairs. This end figure can then be expressed as a percentage of the total amount invested into the development project.

Keep in mind, that the feasibility study is only as good as the information that is fed into the worksheet format in the

software. To be able to access the likely up-to-date costs of building dwellings, a qualified builder or architect's professional help should be sought to quantify all the costs involved and the estimated time frame for construction of the dwellings.

Building companies use the completion of key construction points as a cue to generate invoices for progressive payments, so by asking the builder what key construction points he uses, the developer can ascertain when large down payments will be required to finance the next section of the construction phase.

The following table outlines likely key construction points and the cumulative project expenditure.

Key Activity	Cumulative percentage of the projected expenditure
Intention to build:	1
On completion of all items up to and including brickwork:	36
On completion of all items up to and including the ceiling and plaster:	71
On completion of all items up to and including final	100

cleaning and completion:

These large down payments can be tabulated chronologically into the cash flow statement, and then this information can be used to create a bar or line graph, which will help the developer estimate when costs are expected.

Financing the Development

7.3 Development risks

Assessing the risks associated with the property market is quite different from other traditional forms of investment such as shares, interest bearing accounts and managed funds. These investment products have a history of performance data and are offered and operated by large institutions, bringing a degree of stability and dependable returns.

Property, on the other hand, has no centralised exchange. Properties can be bought and sold through the classified sections of the paper.

Each property is offered up without any sales performance history and is incompatible with many of the properties around it. Therefore, the property market tends to work in more of a fog than other forms of investment.

For the developer, the risks are increased when considering a development project. Many aspects of the building process must be amalgamated together to achieve the final result. Subdivision is applied for along with planning

consent; demolition and site clearance makes way for retaining walls and building pads; borrowed funds are pitted against time taken for construction. All these factors must gel together, and it is inevitable that some problems will occur, which increases the risk of developing.

In comparison, an investor who buys a completed property undertakes less risk. This is because the investor knows how much the initial investment is, the likely amount of rent to be received and the outgoings associated with holding the property.

As there are many more unknowns with the development process, the developer must assess the relative risks of the proposed project by using financial projections. These projections can be generated through the feasibility software and outline the cost involved with the entire project. This figure is then subtracted from the likely sales revenues received from selling the development. The resultant figure is the gross profit margin.

The gross profit margin is then tested for its resilience to changes in key variables of the construction process. For example, increasing the time taken for completion by three months, spiking up the interest rates by 1 or 2 points, using a lower than expected sales revenue. By manipulating these key figures, the developer will soon realise the severity of the risks associated with a particular project.

For these risks to be justified, the proposed project under scrutiny should return approximately 15 - 20% net profit after factoring in some precautionary changes to the key variables. (Net profit, is the sum of money that goes into

the developer's pocket after all taxation obligations are met) If the projections are indicating figures below 15%, this should be a cue for the developer to look elsewhere at another property and another scenario.

7.4 Borrowing Funds from a Lender

As property development encompasses a broad classification from multi-storey buildings down to the smallest form of development such as a housing renovation, there are many people of ordinary occupation that undertake a development project and borrow large sums of money from lending institutions.

Many of these smaller projects fail to achieve their projected forecasts because of poor management and understanding of what is required of the project. Financing these projects is one of the key areas that need to be addressed thoroughly to guarantee that funding can be sourced and cash flows maintained throughout the life of the project.

Many lenders are wary of the development market because some borrowers are inexperienced in the field and cannot provide enough substantial evidence to allow the lender to accurately assess the risk of the project. From a lender's point of view, they've probably had experience with a project being half completed when some form of unexpected cost 'over run' forces the developer to seek additional funds. The lender is then faced with the dilemma to either advance more funds and carry the risk of further losses, or close out the loan and put a stop to any more losses. This being the case, a lender when assessing a

proposed project will look closely at the borrower's present financial position and ability to service the loan before considering the profit potential of the project.

The amount of funds an individual can borrow is dependant on factors such as;

- the amount of equity he/she possesses in the form of cash or existing security,
- the ongoing income available
- and the ability of the borrower to complete the project.

When a lender assesses a borrowers application there are some basic calculations that they do to ascertain theoretically how much the borrower can lend.

These calculations involve;

a) Assessing the asset value of security put forward by the borrower, usually in the form of real estate and multiplying this amount by 90%. (For example, a $250 000 house x 90% borrowing rate = $225 000).

b) From this amount is deducted any mortguage debt (For example, $225 000 - $30 000 existing mortguage = $195 000).

c) Multiply property to be purchased value by 90%

   (say $200 00 x 90% = $180 000).

d) Finally, the lender adds together the figure from b and the figure from c to arrive at the maximum allowed to borrow. (Eg - $195 000 + $180 000 = $375 000).

The next point for the lender to consider is – Can the borrower service the repayments on the loan? The lender will require confirmation of income, and an accurate estimate of all financial obligations and living costs. This information is then carefully assessed whilst referring to past credit references, to decide whether the borrower can for fill their obligations to the lender.

If the application is suspect in any areas, the lender may choose to look closer at the 'nuts and bolts' of the proposed development. This may involve fully assessing the itemised costings of the project.

This information would need to have supporting documentation to explain how the figures were derived. Generally, if the borrower doesn't have a good track record of loan repayments or other successfully completed developments, the lender will be reluctant to advance the funds required. This is understandable as it is critical there is ample cash flow to meet the projects liquidity needs.

Like any other business, accurately predicting and managing cash flow is vital to the project's success. The lender has a vested interest in seeing a project succeed but the onus is on the borrower to prove that the required repayments can be met.

7.4 Choosing a builder or subcontractor

Making the choice between using a builder or running the development yourself using subcontractors, should be decided in the initial stages of the development plan. Usually this decision depends on the experience level of the developer and the time available to devote to the project.

If you are developing for the first time and are working a full-time job, it is highly recommended that a reputable builder be employed to handle the entire task. This would include their involvement from buying the property, through to putting in the last flower in the garden bed. A good builder will have the necessary skills, experience and staff to make the whole process run as smoothly as possible.

Big building companies build many dwellings each year and are highly skilled in running building projects.

Because they buy their materials in bulk, they can discount their prices to an extent to provide a competitive price. Builders usually employ subcontractors then 'mark up' the price 10–15% to factor in a profit margin.

This is not to say that the developer cannot do some of the work him- or herself. For example, the developer may elect to install the paving, lawn and landscaping and hire his own tradesmen. This way he can shop around for a competitive price and remove the 'middleman' or use his own resources. This may sound appealing in theory, but taking on some of the work can be stressful. There are many nightmare stories of inexperienced people taking on these jobs themselves to save money, but who end up in a terrible mess, as the appropriate steps are not taken. One example involved an owner installing soak wells into a multiple dwelling site in an endeavour to save money, only to be told by the council inspector to remove them all, as the soak wells were not installed to council specifications. (A common occurrence apparently).

If the developer decides to run the project without the aid of a building company, subcontractors need to be directly employed by the developer. They must play a more active role in the building process by assessing the quality of the work completed and ensuring that materials and job scheduling are kept moving. To be able to handle such a project, the developer would ideally have previous experience in the processes involved and have plenty of spare time to coordinate the project and supervise the building stages, guiding the development through the council hoops.

Some disadvantages of going out on your own include:

- not having the same discounts as a large building company;
- loss or damage to building materials;
- delays due to inadequate sequential construction schedule;
- disruption of lifestyle and erosion of leisure time; and
- handling disputes with subcontractors directly or, by law, as the Builders Registration Board or Builder's Dispute Committee will not be available to intervene.

7.5 Prerequisites of an owner–builder or owner–developer

An owner–builder or owner–developer requires sound organisational skills, and they must be able to manage their time efficiently and effectively. Weekends and holidays maybe forfeited and time must be made available for overseeing the project after hours.

An owner–builder or owner–developer has the responsibility to select land, negotiate with tradesman and building officials, and arrange financing. In addition they must make payments to suppliers and contractors on schedule, disburse fees to government departments, meet the prescribed payments system and all relevant insurance coverage.

They must also be aware of the legal requirements and penalties associated with this choice of construction and establish cordial working relationships with the council, building surveyors, tradesman, manufacturers and suppliers. And, of singular importance, family members should possess sound communication skills.

An owner–builder or owner–developer must be liable for the standard of work and be accountable to the Builders Registrations Board and all local authorities. They assume the builder's responsibility for the standard of construction. All aspects of construction must meet with the standards required by the building code of Australia and the *Builder's Registration Act.* (City of Rockingham)

7.6 Signing up with a builder: contracts and rights

If the developer decides to use the resources of a qualified builder to manage the intended project, there are a number of precautions or initial steps that must be taken before the developer puts his signature to a building contract.

First, the government has previously introduced a number of initiatives to help safeguard the consumer against shoddy building practices. All builders who carry out work in excess of $10,000 must be registered with the Builder's

Registration Board. To check on the status of a builder before making any decisions, contact the Builders Registration Board.

All builders are bound by the *Home Building Contracts Act,* which was introduced by the government in 1992 and outlines minimum conditions that builders must comply with when carrying out home-building work or associated work valued between $6,000 and $200,000. Some of these provisions include:

- The contract must be in writing and a copy must be provided to the client before both parties execute it.
- All the terms, conditions and provisions of the contract are to be set out in writing.
- A notice for home owners is provided that summarises the provisions of the Act including what to do in the event of a dispute.
- Special provisions and/or restrictions must be stipulated in the contract in respect of variations, deposits, advanced payments, provisional sums and prime cost items.
- There is a minimum-defects liability period of 120 days.
- Rise and fall clauses are prohibited unless cost increases result from an increase imposed by the government.

Also, before entering into a contract, ask around about the building company, and request a viewing of some of the completed homes built by the company.

(City of Rockingham)

7.7 Disputes with building companies

Where there is a dispute between the developer and a builder or contractor and they are unable to agree on a solution, the Building Disputes Committee can determine complaints. In the case of workmanship, the complaint must be made within six years of practical completion. If the problem is contractual, it cannot be made after three years from when the cause arose.

The Building Disputes Committee is an independent quasi-judicial body and its orders are binding on the parties involved, but appeals may be made to the district court. Powers of the Committee include:

- making an order on a builder to remedy work;
- making an order requiring the builder to pay the developer the cost of having the work rectified by others;
- ordering the payment of any amount payable under the contract;
- requiring work to be done in performance of the contract;
- ordering the payment of compensation for loss or damage; and
- dismissal of the complaint.

Failing to comply with an order of the Committee can result in prosecution. (City of Rockingham)

7.8 The Council submission process

Once a good builder is found, they will be capable of handling a lot of the worries associated with building. Large building companies have various departments, which at some stage of the building process will have input into the project.

Before a development can commence, the project will require prior approval of the relevant Council so that all conditions that are listed by the council are met and that the Council and the public (if necessary) are satisfied that the development is completed to the required standard. The building company will handle all submissions and correspondence dealing with this process, but it is still important for the developer to understand how the development application proceeds through Council.

To be able to assess the suitability of a particular development, all Councils have a submission process or development policy in place, which will systematically assess each facet of the submission. One of the primary roles of the Council is to control the level of development within its particular jurisdiction. This is done by legislating often quite strict regulations and covenants over the specific use of land.

There are 32 local government authorities in the Perth metropolitan area alone. Each local government authority is generally bound by R codes in the overall Metropolitan Planning Scheme; however, in addition, each then adopts their own set of planning guidelines for their Town Planning Scheme. These local interpretations affect what each development within that area must contain.

7.9 Application

In order to accurately process a development application, the proponent must present to Council all relevant details pertaining to the proposed development. If the development cannot be permitted outright according to the Town Planning Scheme (a document formulated by the Council to guide the way the city grows and changes), a Planning Approval Application must be completed as a first step in the process.

Planning applications are required so that the Council may assess the developer's plans and information, inspect the property and determine whether the proposal is appropriate. Planning approval may also be termed 'Approval to Commence Development', a 'Planning Application' or an 'Application for Planning Consent' by other Councils, but different terminology aside, all proponents must complete a generic form termed the Metropolitan Region Scheme Form 1 (MRS 1), which is forwarded to the Council as well as the Western Australian Planning Commission.

Information to accompany the Town Planning Application for Approval Form generally include;

- three sets of plans with dimensions, contours, landscaping, driveways and car parking facilities, store rooms included;
- elevations indicating front and side elevations;
- a floor plan indicating internal features, habitable rooms and fire separation walls if required;

- eaves overhang to be indicated; and
- remuneration of the minimum fee of $100 or 0.23% of the estimated cost where it exceeds $50,000.

(City of Gosnells)

7.10 Referral

When an application is lodged, the Council's Planning Services staff will assess the information provided by the applicant and decide whether it requires public notification (advertising). If so, a 14-day period is given for submissions to be received. The majority of applications does not require public notification and may be dealt with under delegated authority by Council's Development Control Unit. These applications are usually processed within ten business days upon receipt of information provided by the applicant. Applications that require referral to an ordinary meeting of council for determination may take six to eight weeks to process.

Council, in considering an application, must give due regard to the following:

- compliance with the relevant provisions of the scheme;
- any planning policy, strategy or plan adopted by the Council;
- appropriate use on the property in relation to its zoning;
- preservation of the amenity of the locality;
- any relevant submissions received on the application;
- detrimental or adverse impact upon occupants of adjoining properties in the locality;

- the requirements of orderly and proper planning;
- preservation of any object or place of heritage significance; and
- any other planning considerations, which are considered relevant.
- Referral for comment may be made to other agencies such as the authorities for water, drainage, sewerage or roads and other Govt agencies for matters concerning vegetation, environmental protection and dangerous goods.

7.11 Determination

In determining an application for development approval the Council may:

- grant its approval with or without conditions as it deems necessary to the development; or
- refuse to grant its approval, giving its reasons for refusal.

Where the Council grants development approval, that approval continues in force for a period of two years, after the date that the application is approved.

7.12 Appeal rights

Applicants have a right of appeal against a decision by Council or any conditions of approval, either to the Minister for Planning or the Town Planning Appeal Tribunal.

Common issues that delay approvals relate commonly to the following subjects;

- site reports for the intended footing details due to area known to have cohesive soils (clay);
- storm water drainage disposal system that is appropriate to the soil type;
- retaining walls – heights, positioning;
- provision of storage areas for each dwelling unit;
- insufficient landscaping plans;
- payment of fees for any scheme costs required by the Town Planning approval;

- approvals from relevant departments; e.g. near the river: the Swan River Trust; and

- incomplete plans. (City of Gosnells)

7.13 The issue of a building licence

Once the planning application has been ratified, the building licence can then be submitted to the Council. Once again, Councils may differ slightly on the requirements of a building licence, but generally, the details would include two copies of all plans, which must include the following:

A site plan to a scale of 1:200. This would include:

- dimensions and position of proposed dwellings with north point marked;
- setback distances from boundaries;
- levels of the site;
- position and size of any sewer and existing storm water drains; and
- positions of street trees, if any.

A floor plan to a scale not less than 1:100. This would include:

- dimensions of walls, rooms, windows and doors; and
- a roof beam layout showing type, position and size of major structural members.

At least two elevations to a scale not less than 1:100. This would include:

- the roof type (e.g. tiles or steel decking) and pitch of roof;
- the type of wall (e.g. brick work) and height of wall; and
- the location of windows and doors.

One or more sections, transverse or longitudinal, to a scale of not less than 1:100. This would include:

- wall construction and roof tie down details;
- roof construction including member sizes; and
- footing and slab details and dimensions. An engineer must endorse the footing and slab details.

Building application to be accompanied by the following building fees.

- Construction cost (materials and Labour) excluding GST. $ Cost x 0.35%
- Building and Construction Industry Training Fund levy inc GST. $ Cost x 0.182%

- Bonds: Kerb, footpath, crossover and drainage connection bonds may need to be paid and are refunded upon successful completion of the job.

Registered builders are required to provide a Housing Indemnity Insurance Certificate when construction costs exceed $12,000.

(City of Gosnells)

8.0 Issues to think about before developing

Here are some initial steps to take and some issues to think about when considering a development within a council's boundary. The City of Belmont and the Towns of Bassendean and Mosman Park have provided this information.

8.1 City of Belmont

One of the most important issues is that prospective developers, should undertake preliminary research about the property including:

- Talking to the relevant Local Authority Planning Department and gaining information on the zoning of the property, council policies and information sheets, Town Planning Scheme requirements and setback requirements. The majority of Council's have information sheets that can be provided free of charge to the public. Some Council's sell full copies of their policy manuals, which would be prudent to acquire.
- Check the title of the land. The land title will provide the owner with an accurate lot area and dimensions. The title may also show if the property ha s any easements or encumbrances.
- Discuss the property with the Local Authorities Building Department to gain information on existing building policies (for example, some authorities discourage the use of zincalum roofing).

- Liaise with the Local Authority Engineering Department to ascertain whether there is an existing drainage system that can be connected to, or whether the developer must provide drainage.
- The Engineering Department may be able to provide a schedule of engineering standards for drainage and crossovers.
- Find out who will determine the application. For properties near the river, a development application or building licence may require approval from the local River Trust. If a property is on a major highway, new developments or crossovers may need the approval from the Main Roads Board.
- Contact the Water Corporation and find out whether reticulated sewerage is available. If sewerage is not available, contact the Local Authority Health Department to find out about effluent disposal requirements.

8.2 Town of Bassendean

A developer's role is not made easy as different Councils have different processes for dealing with small-scale housing projects. In terms of general advice, any prospective developer should approach the relevant Council and ask what approval process is necessary to carry out the development. Questions that should be asked include:

- Is planning consent necessary, and if so, what plans and fees are required?

- Does the Council have a policy relating to the development?
- How long will approval take?
- Will the proposal require local advertising?
- Will the development be determined by Council or by officers?
- How long will it take to obtain a building licence?
- Does the Council charge any development bonds or security deposits, and if so, when and under what circumstances is the money returned?

8.3 Town of Mosman Park

Some common misconceptions and mistakes regarding the development process are listed below.

- Applicants often subdivide and create narrow and unconventional shaped lots and do not understand the restrictions this may place on the dwellings that can fit on the new lot.
- Applicants do not fully investigate the contributions they are required to make as part of a subdivision; i.e. financial contributions to upgrading a laneway or road widening.
- Applicants have the expectation that they can build something similar to what has been developed in their immediate vicinity; however, they may not be aware that the zoning and the density code may be different and, as such, different setbacks, minimum lot sizes etc may apply.

- Applicants often think that the development and subdivision processes are a single process.
- Applicants often assume restrictions are uniform between different local authorities. For example, height restrictions and the way these restrictions are calculated.
- Applicants often underestimate the time frame involved in obtaining an approval, particularly if an application is required to go to a Council meeting or if it attracts a number of objections from neighbours or is referred to another government authority for comment.

9.0 A step-by-step procedure for building

The following section goes into detail outlining the steps needed to construct a house. I thought it was best to include this as it can be frustrating if you don't know what the next phase of construction is and you're waiting for someone to turn up to work at the site. If the developer is aware of the sequence of events, they feel more in control and in tune with the construction process.

Typically, a building construction has the following major steps.

1. Clear and establish the site. This involves preparing the site for building and removing trees, gardens and organic matter from the soil. The earthmover may need to import soil and construct a sand pad to the heights on the drawings.

2. Setting out the site. A surveyor will establish the lot boundaries and the concrete contractor may set out the building dimensions.
3. Plumber installs the pipes. A licensed plumber will be needed to install a water main meter on site and install all the pipes that will be under the flooring of the house in accordance with the relevant plumbing codes.
4. Excavation of footings. Usually it is the concrete worker who excavates the footings. Once completed, an inspection is usually necessary from the Council before pouring of the footings can commence.
5. Preparing the slab. The appropriate levels for the slab are set by the surveyor then the excavator can move the soil around to the correct levels.
6. All vegetation and organic matter must be removed from the construction area, with the excavation allowing for clearance around the building for subsequent paving and adequate surface drainage.
7. Formwork or 'boxing up'. This task is undertaken by the concreter, and will form up the sides of the sand pad with reinforced boarding, in accordance with the working drawings. Once the pad is filled with concrete and cured, the formwork can be removed.
8. Plumber and white ant treatment. At this stage, the plumber will install waste pipes for the later installation of fittings. The council must inspect all other pipe work before the next stage can proceed. When the plumber has completed work on the internal waste pipes and the fill has been placed and levelled, the area can be

treated for white ants by a pest controller before the PVC membrane is laid.

9. Vapour barrier and reinforcement. The vapour barrier consists of polythene sheets laid over the entire slab area. All the joints must be lapped by not less than 200 mm to ensure a continuous membrane beneath the slab area. The reinforcement is now placed down as specified. This consists of steel mesh situated over the entire slab area suspended 10–20mm above the membrane, so that when the concrete is poured it forms around the mesh to provide a strong bond. Again, a council inspection will be needed at this stage.
10. Pouring of concrete. During this stage, the whole slab is poured in one continuous pour. The slab will be weakened if fresh concrete is placed against partly set concrete. The slab should not be allowed to dry too quickly as this may produce cracks in the surface and in extreme cases, structural faults.
11. Bricklaying. Brickwork can commence after a seven-day curing period of the slab. This time may vary as stipulated by the engineer.
12. Roof frame. This may be a stick construction or prefabricated trusses. Stick construction is generally used when the design calls for a number of hips and valleys and is still predominantly used in WA. Trusses are manufactured in a factory and delivered to the site where they are hoisted onto the wall plates and tied down.

13. Roof, guttering and plumber. After completion of the roof frame, the plumber is required to fix the guttering before the installation of the roof covering. At this time the plumber will also do a 'rough in': a term referring to the fixing of hot and cold water services and drainage points built into the walls.
14. Electrical and plumber: first fix out. The electrician will place the lighting and power cables to the power outlets. The plumber will install plumbing tube in the roof cavity.
15. Roof covering. The roofing material is now fixed to the roof frame.
16. Brick cleaning. A brick cleaner is employed at this stage to clean all the face brick surfaces.
17. Plasterer and ceilings. The plasterer will proceed with the first float coat to the walls. Upon completion, the plasterer will fix the ceilings and cornices then return to the walls to finish the final set coat.
18. Carpenter, windows and doors: second fix out. The carpenter can begin to fix all the internal and external doors, kitchen cupboards and any other items of finished joinery. The window and sliding door contractor can also commence fixing to ensure the building can be locked up.
19. Plumber: second fix out. The plumber will install appliances; e.g. baths, sinks and basins in readiness for ceramic wall and floor tiles.
20. Wall and floor tiling. All wall and floor tiles are installed.

21. Painting. The painter will prepare all surfaces for painting before proceeding.
22. Plumber: final. The plumber will complete the plumbing by fitting wastes to the basin, sink, tubs, showers etc. Taps will be fixed, hot water service connected, toilet seats fitted. Storm water soak wells are installed to carry away the water from paved areas and from the gutters. This must be done to council specifications and inspected on completion.
23. Electrician: final. The fixing of switches, installation of power points, wiring of fans, stove and range hood
24. Landscaping. Landscaping will include paving the appropriate areas as well as laying down the lawn and establishing garden beds. Paving must provide enough fall to ensure that water will not run back toward the dwelling or under it. It may be necessary to install spoon drains, which discharge into the storm water drainage system.

10.0 Signing up with a real estate agent

Once the builder has completed the project and the keys have been handed over, the developer will be very keen to begin selling the properties if they haven't already done so. This is when all the hard work, money and research will pay dividends if the approach has been thorough and the rules adhered to.

At the end of the project, the developer should be in possession of dwellings in a good location with many desirable attributes poised to be offered to a market full of eager buyers. Although this may be a little optimistic, the point to stress at this stage is that choosing a real estate agent is another area of critical importance to the final success of the project.

Firstly the developer must realise that they are in possession of a number of valuable dwellings, which means a large sales commission to whatever real estate agent signs up their business. This fact means that the developer 'calls all the shots'. I suggest contacting three or four agents and asking them to pay you a visit to explain how they can sell the development in the quickest possible time for the most amount of money.

Now, commissions should not be the main issue for the developer as if the research was done during the feasibility stage, an accurate commission fee would already be factored into the profit and loss statement; therefore, small variations in commissions should not increase or decrease the profit significantly.

What the developer should be interested in is what the agent is offering in the package to sell the development.

For example,

- Will there be a flier made up?
- What forms of media will be used for advertising?
- How often will there be home opens?
- Is the agent willing to multi-list?
- Do they provide signage outside the properties?
- Who pays for the advertising?

These are the core issues at hand to be scrutinised and negotiated. When discussing the Exclusive Agency Selling Agreement, the developer should opt for a three-month agreement, so they can review the agent's performance after the initial period. If the developer is unhappy, they can choose not to renew the contract and find another agent.

Real estate companies will try and sign up the vendor for at least six months, so they have sufficient time to 'work' a sale if the market is a bit slow.

Once three or four agents have given their best sales pitch, the developer should have a fairly good idea about what's on offer and which agent they prefer. They should be looking for an agent who will negotiate the highest possible price for the dwellings, and who will not throw in the towel after a number of unproductive months and try to get the developer to drop the price.

Keep in mind, the developer has been with the project from the beginning and has invested a lot of time and money. Don't let an unprofessional agent beat you down, they've only just come on board, and aren't as motivated to achieving the highest price.

An excellent book to read before anyone buys or sells real estate through an agent is Real Estates Mistakes written by –Neil Jenman (Rowley Publications), who is an ex-real estate agent.

He offers some very good advice and strategies to use when buying and selling real estate. Reading this book could save you thousands of dollars down the line.

GST and Capital Gains Tax Considerations

11.1 GST considerations

There have been some recent changes to the tax legislation which impacts greatly upon developers in a positive and negative manner. Firstly, the introduction of the GST tax has made it more expensive for the developer to have dwellings built, as suppliers and builders pass on their GST obligations. This in turn forces the developer to inflate the selling price to the purchaser, to cover their obligation of the tax. This may force some developers, who are desperate to sell; to work on smaller margins and absorb the GST cost themselves.

The Tax Office allows two methods of calculating the GST when a sale transaction occurs. GST can be paid on the total amount of the property sale, which can then be claimed back by the purchaser through input tax credits, provided they are eligible to do so.

The second method of calculation that can be applied is termed the Margin Scheme and provides a way for developers to apply a reduced amount of GST in a property transaction.

Using an example from the Tax Office the Margin Scheme is explained.

Margin Scheme

On the 12 May 2000 Bob, a property developer, has a block to sell. He aims to sell the block in November 2000 for $100 000 plus the GST on the sale.

Without using the margin scheme, Bob would need to sell the block for $110 000 to cover the GST payable on the sale. The GST would be 1/11th of the sale price $110 000.

However, under the margin scheme Bob could sell the block for less then $110 000 and still clear $100 000.

The block is valued at 480 000 as at 1 July 2000.

Under the scheme GST is only calculated on the difference between the 1 July 2000 valuation and the final sales price. If he sells the block for $102 000, the margin is $22 000, (that is, $102000 - $80 000). The GST payable on this amount is 1/11th of $22 000, that is $2000 that Bob has to pay to the Tax Office.

Bob would therefore be able to market the block at a lower price of $102 000, and make the price more attractive to prospective private buyers not claiming an input tax credit.

From a developer's point of view in relation to the GST and strata title developments, the margin scheme can be applied to ensure the GST is payable only on the value added to the land after it has been subdivided.

The original purchase price of the development property is apportioned over the total number of subdivided blocks.

Using another example from the Tax Office this point is explained.

Margins on subdivided land

Hilary Enterprises Pty Ltd, a mid sized developer, acquires a block of land on the outskirts of Adelaide for $300 000 in July 2000. The land is subdivided into 6 blocks of equal size and amenity.

The company chooses to use the margin scheme to calculate the GST payable on the subsequent sale of the blocks. In these circumstances it is appropriate

to apportion the consideration for the acquisition equally to the 6 blocks, that is, $50 000 each. The company sells 4 blocks for $77 000 per block.

This means the margin on each block is $27 000 (that is $77 000 - $50 000). The company pays GST for each block of 1/11th of the margin, that is, $2454.

The company later sells the remaining two blocks for $90 000 (including GST). The margin on these blocks is $40 000 (that is, $90 000 - $50 000). The GST the company is required to pay on the sale of the last two blocks is 1/11th of the margin, that is, $3636 per block.

Had the company opted for the full taxation rather than the margin scheme, its GST liability on the sale of the initial four blocks would have been $7000 per block (that is, 1/11th of the sale price of $77 000). The later sale of the remaining two blocks would have resulted in GST of $8181 (that is, 1/11th of the sale price of $99 000) per block.

However, a register buyer of any of the blocks would be able to claim input tax credits for GST under this treatment, to reduce the net cost.

The seller of a property may choose to only apply the margin scheme on sales to buyers who cannot claim input tax credits, such as private individuals.

11.2 Capital Gains Tax

Recently there have also been changes to the Capital Gains Tax (CGT) legislation. Contrary to the GST tax, the CGT changes can work favourably for the developer.

The new legislation allows properties that have been purchased or built and held for a period of 12 months before selling, to attract only 50% the rate of CGT. This new legislation may change the disposal strategies of some developers who may 'weigh up' the costs of holding the new development for 12 months to qualify for the reduced CGT. Developers may decide to rent out newly completed dwellings to compensate for the ongoing interest costs of the development loan.

Another change to the CGT legislation which doesn't fall in the developer's favour, is that the Tax Office has scrapped legislation that allows any capital gain made on property to be indexed to inflation. (For the medium to long-term investor this meant that CGT could be significantly reduced when the cumulative effects of inflation where taken into account, effectively only paying CGT above the inflation rate.) With this legislation removed, significantly more CGT will be liable to be paid the Tax Office.

12.0 Points in Summary

In summary, property development is a very unforgiving form of investment if not approached with caution. The developer must fit together each piece of the development sequence relatively well, to be able to release the rewards. If this is achieved, a very good return on funds invested can be realised in a short period of time. The lure of this unrealised profit plus the excitement of seeing a development take shape in the form of bricks and mortar, makes property development irresistible to some.

Once the decision has been made to develop, the prospective developer must fore mostly make it their business to be well informed in all aspects of the process. Firstly, likely areas to develop must be identified. They must think about what is driving demand in the medium to long term in areas in general, then use the macro and micro cycles to recognise the state of the property market and the likely suburbs or pockets in demand or about to experience increased demand.

The next step is to have in mind the kind of development to build, and whether to use a builder or employ subcontractors. A feasibility study should be carried out to ascertain the suitability of the development plan and the many variables involved. (eg – amount of funds to be borrowed, what dwellings are in demand etc). A sharp, clear focus must be formed about every detail of the development and how the outcomes will be achieved.

When a number of properties have been earmarked for consideration and the developer begins to submit offers,

all bases need to be covered by writing clauses into the offer and acceptance form, so that the developer has time to gauge the suitability of the property. (eg – subject to correct zoning, building structure inspection, covenant and easement search). Prospective properties should also be analysed for block shape, size, slope and suitable soil types for building. If a builder has been decided on, they should be available to help out in this department.

Other factors such as anti-social neighbours, future council plans for the street and council building regulations should also be considered in relation to the type of development proposed. Once a property is purchased a contract to build must be entered into if the developer is using the services of a builder.

Consult the local building authority about reputable builders to use or ask for recommendations from similar industry or government bodies. The all important building contract must comply with the minimum conditions set out in the 'Home Building Contracts Act' and the developer must become aware of all aspects of the contract and the builder's obligations. Remember, the builder needs to be registered to build but contractors have no such registration process, and there is a small majority of 'bad eggs' out there who may be employed to work at some stage on the project. Be wary!

The developer must be aware of the steps involved in the building process, so that he/she can communicate with the foreman and understand how things are preceding.

Once the development is completed, consideration must be given to the tax obligations that go with any investment property sales transaction. Advice should be sort from an accountant as to the best strategy to employ when selling the development.

Finally, a competent real estate agent must be employed to sell the development, for the highest possible price in the shortest amount of time.

It may be useful when approaching the property development process, to put together a checklist outlining the steps that need to be taken to secure a suitable development site. The following checklist is typical of the points that need to be considered.

Checklist for Pre-Property Purchase.

Zoning

- Is the development proposed permissible in the zone?
- Are there Council plans to rezone the area?
- Are there any Town Planning guidelines (present & future), which may restrict the development?
- Can commercial zoning be applied? (It may be feasible to build a commercial premise, increasing returns).
- What Council fees are involved?

Site Characteristics

- Is the site of a favourable shape?
- How much slope or fall is evident on the site?

- What are the likely earthmoving costs for preparing the site?
- Is the site sand or clay? (Sand has good drainage. Clay traps water and may require expensive drainage options).
- Is the site subject to flooding?
- Does erosion affect the site or adjoining properties?
- Are retaining walls needed? If so, at what cost?
- If a corner block, can access be gained both sides so each strata block can have its own driveway?

Utilities

- Is the site serviced by power, phone, sewer, and water?
- Are there any utility easements attached to the site? Eg – sewer mains crossing the property.
- Are any utilities such as power poles, culverts etc obstructing future access to the site?
- Do any of these utilities need upgrading in the near future?

Neighbours

- How do the neighbours view the proposed development?
- Do any neighbours exhibit antisocial behaviour, which may impact on the development?
- Will the development affect the neighbours' privacy?

- Does the prosed development have to conform to the local streetscape?

Site Suitability

- Is the site located in a favourable location? Eg – close to amenities and public transport.
- Is access to the site adequate? Is it safe to drive in and out of? Are left and right turning access available?
- Is there any street car parking and is there potential to increase the number of parking bays?
- Is the road in suitable repair and wide enough?
- Is the site affected by noise?
- Is the site likely to be contaminated by past land use?

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