



# 12 STEPS

OF THE DEVELOPMENT PROCESS

## **STEP ONE: GETTING STARTED**

If you're reading this guide, then you probably don't need any convincing about property as an asset class.

In fact, you may be bored or frustrated by traditional 'buy-and-hold', cash flow positive or renovation strategies because they are just too slow. And, you may be curious to understand how investors can successfully make the leap to become developers and make 'serious' money.

Property investors buy property at 'retail' prices and make a profit as house prices go up. There's nothing wrong with this strategy. If you buy in the right location and wait long enough, you can do very well.

Property developers add value to land and dwellings in order to capture a 'developer' or 'wholesale' margin. This gives them 'instant equity' they can pocket as profit if they sell... or use as collateral for their next project if they hold the property.

Basically, Property Development enables you to make more money in less time.



## Is Property Development right for you? Grab a pen and consider your answers to these questions...

- Have you always wanted to develop property, but feel short on knowledge or do not have an experienced team on your side?
- Do you have access to equity that you would like to reinvest?
- Do you have land/property with no (or only a small) mortgage, but no cash to develop?
- Do you own land with development potential?
- Would you love to live in a new house, but currently live in an aged house with a big backyard?
- Are you looking to invest in property, but not sure if this is the right time to buy because prices have risen in value?
- Do you want to grow your property portfolio faster so you can replace your income in the next few years and enjoy a life of freedom and choices?
- Do you sometimes worry you may run short of money in retirement and be forced to compromise your lifestyle... especially if you experience unexpected medical issues or changing economic times?
- Would you like to be sure you have more than enough money to live the life you want... with money left over to leave a positive financial legacy for your family?





## Profits in Development

Property Development building multiple dwellings on a singular lot is a fantastic way to increase cash flow from one property. Be it vacant land or a block with an existing home, it doesn't really matter. Either way, these opportunities give you options. You are effectively reducing the cost base for your land, and 1+1 quite often equals 3.

Firstly, you can achieve a great cash flow outcome, putting money in your pocket week in, week out. Secondly, it provides choices. When done right, these properties are immediately worth more than the project costs to put together. You could sell some and reduce the debt, obtaining an even stronger rental return, or even sell all for a quick tidy profit. Now, I prefer to hold some properties long term, but having choices and a contingency plan can't be underestimated.

## The Importance of an Exit Strategy and Contingency Plan

Always go into an investment with an exit strategy and a contingency plan. Most people have no exit plan. In fact; they often have no plan except: Buy, Hope and Pray it works out - which is not a plan at all. Even if you intend to keep a property, you need to have thought about how you could exit if you need to, and if that exit doesn't work out, what is the back up?

# How Developing Property Allows You To Buy All Your Property At 'Cost Price'

Let's look at some quick numbers from one of our recently completed 4 townhouse projects. The end value for each Townhouse is \$1,100,000, and the Development costs were made up of:

	<b>Development</b>		<b>per Unit</b>	
Land + Costs	\$	1,050, 000	\$	262, 500
Consultants	\$	67, 800	\$	16, 950
Council Costs	\$	51, 200	\$	12, 800
Construction Costs	\$	2, 102, 600	\$	525, 650
Marketing and Legal Costs	\$	107, 200	\$	26, 800
GST	\$	102, 000	\$	25, 500
Interest	\$	89, 200	\$	22, 300

When you develop property yourself, you get to keep the 'developer's margin' or 'wholesale margin'. In this example you can choose to pocket \$207, 500 per unit as profit when you sell the property, or you can refinance and hold the property with a \$207, 500 per unit equity contribution towards your next development. This is like buying a \$1, 100, 000 property for just \$892, 500!

By not having to wait for the market to go up in order to acquire your next property, you can dramatically accelerate the rate at which you can grow your portfolio.



You're probably beginning to see why property development is "The Ultimate Equity Accelerator". In a sense, it's like creating money out of thin air. Once mastered, all you need to do is 3 things, over and over again:

- 1 - Purchase Site
- 2 - Develop Property for Instant Capital Gain
- 3 - Refinance Property based on new Valuation and unlock the Equity to fund a new Development



## Investing is Pretty Simple

The basics of investing are simple. It's easy to over-complicate things, and that's when investing normally gets messy.

I'm not saying property development is easy, it's not. But this guide will go towards simplifying the process and give you the skills to start the journey.

Just like anything that makes money (a job or a business), you need to invest your time and make a commitment to be successful. But you don't need a degree nor do you need to have years of experience to make money from property investment.

I think Henry Ford said it best, "Thinking is the hardest job there is, and that's why so few people do it."

The three biggest challenges for people starting out:

- Procrastination - simply not getting started. It mostly comes down to the motivation. I'll start tomorrow, but tomorrow never comes.
- Over-analysis (analysis paralysis) - some people go through a painstaking process of analysing and accounting for every last cent, terrified of making a mistake. In the time it takes to analyse (and analyse and analyse again), the deal is gone.
- The Frustrated Purchase - people decide to invest and think it's going to be easy. But after a few weeks they get sick of the looking & they want their life back. They lose their enthusiasm and just buy something "that will do".

# Step 1 Challenge Task - MARKET ANALYSIS

This is often overlooked by novice and first time developers, but is one of the most important aspects of developing a project. Also, most people think that Market Analysis is started once you have found a site. It doesn't. Right now, the first thing you need to understand is the very basics of Development. And, the best place to learn about the basics is at the coal - face. Most people have a pre-conceived idea of what the market wants, and are influenced by their own preferences and styles. That is mistake number 1. The market doesn't care what you like or would prefer. Your opinion will be one of two things, right or wrong, and you can't afford to let your opinion dictate your results.

The first thing you need to do is look at what local developers are doing. The quickest and easiest to start to learn anything is to "model" your behaviour on others that are already doing it. Looking at what else is being developed in the marketplace is the first point to start.

Market analysis will ensure you are developing a property that has demand, and the finished development will fetch the price you expect. There is no point developing 1 bedroom townhouses if there is no demand for this product.

At this time, your best friend is going to be local real estate agents. Visit open houses (of brand new completed developments), look at sites that are already being developed and sites which have already started construction.

Your market analysis should include factors such as:

- What's already being built in different neighbourhoods?
- Who are the builders building it?
- What's the product being developed? Before you begin a development, you have to know what buyers are looking for. Do they want 3 bed, 2 bath + study or would they pay more for
  - another garage or a good view.
- What is the demand for this type of design in the area?
- What is the rent in the current market for your planned dwelling type?
- What are comparable sales in the nearby area?
- What sized blocks are being developed?

Armed with this information is the power so you will be able to make wise decisions moving forward. Start thinking about why one site might have 3 townhouses being developed and another may have 8. What features are needed to achieve higher sale prices? An inquisitive mind is your most valuable asset at this point in time.



## Number 1 Tip - Ask Questions

Without this information you will simply be guessing. That's a dangerous practice I call 'Hope and Pray'.

## Take Responsibility and Find a Way

You need to take responsibility for your own financial successes. I'm not saying to do it all yourself; you need a good team of advisors, and we will talk about your team in Step 2 of this guide.

Their job is to advise you, but ultimately you make the decisions. Even if you don't get the answer you were hoping for the first time, push on. If you're told you can't do something, keep asking questions and thinking creatively until you find a way to do it.

## Get Out There, and Do It

Your biggest challenge is to take action! Because all the education and knowledge accounts for nothing until you take the next step.