THE 8 BIG

RISKS IN BECOMING A PROPERTY DEVELOPER

The last article spoke about the great benefits of Property Development. We make it sound so easy - but there must be a catch, and there is.

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

- They paid too much money for the property.
- They haven't done an accurate feasibility study before purchasing the property.
- They became overconfident after doing one or two successful developments and we're prepared to accept too low a profit margin.
- They timed their property development poorly and had no contingency plan.
- Some property investors move into the realm of property development not understanding the rules of the game are very different. They don't know what they don't know and they get caught.

So what are the 8 Big Risks involved in Property Development? Some of the significant risks I have seen include:-

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

2. Interest rates rising during the development process resulting in increased holding expenses and lower profits.

3. Increases in construction costs during the project. Beware of the cost variations.

4. Changes in the supply and demand ratio for real estate markets. This of course depresses property values and reduces your project profit margin.

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

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

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

And...

8. Some find that the improvements they have made to their properties do not result in an increase in value. They learn the hard way that increases in value do not necessarily occur in line with expenditure on improvements.