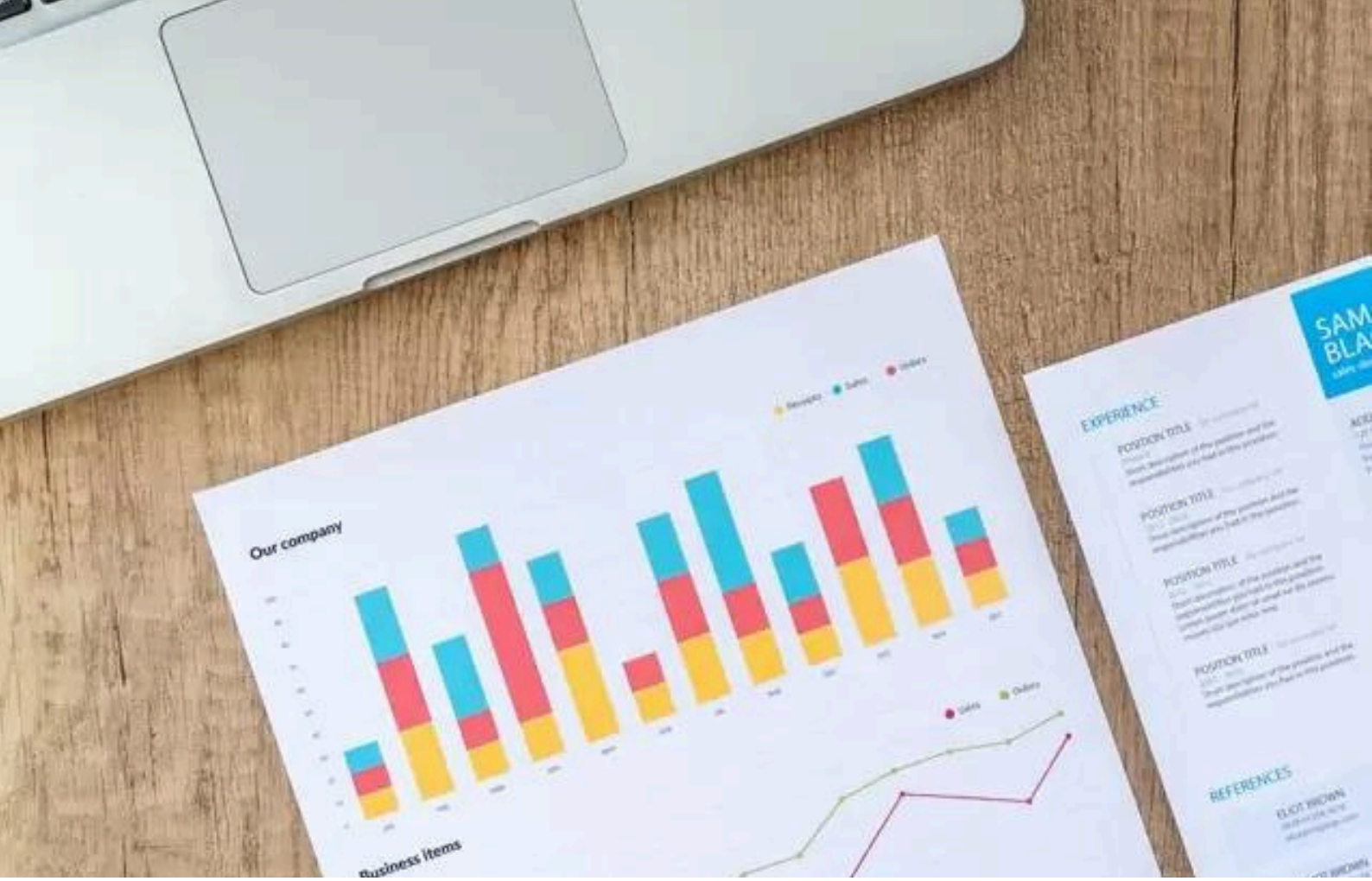


12 STEPS

OF THE DEVELOPMENT PROCESS

STEP FOUR: FINANCIAL FEASIBILITY ANALYSIS

If there's one thing that drives property developers crazy, it's all the research. And determining the Financial Feasibility of a project is often the area that creates the most angst and confusion. Hours of painstaking analysis, triple checking and micro analysing every possible expense. Many make the mistake of relying on feelings rather than facts, some become so concerned that they will never find another deal and end up paying too much, while others get so confused they simply give up.

But Financial Feasibility need not be complex or daunting. It can be quite simple and literally assess the numbers on the back of an envelope.

Whilst I agree that a deal is all about the numbers, for me it is about following a conservative "macro" approach. I don't need to allocate every itemised cost, consider every variable or micro analyse every aspect of the deal.

I only need to allocate the big numbers.

I need to understand the variables and make allowances for the big ticket costs associated with every deal. I also need to know what the current prices would be, if we were selling today. And the difference between these two figures is the potential profit left in the deal.

I call this number the "Margin of Safety". If this "margin" is large enough, it will provide an acceptable profit PLUS an additional allowance to cover any minor variations from the allowances allocated.

Attached is our recommended feasibility analysis document. This spreadsheet will help you plot your costs for any development you undertake. There is no shortcuts or fail safe ways to conduct a feasibility, just a thorough understanding of how the numbers work and the variables at play.

So far in this series we have discussed what consultants are going to form part of your team. This is the start where you begin to understand the importance of this team. As you work through this spreadsheet you're going to find parts that you easily know the answers to. However, you're probably going to have more questions than answers to start with. This is where your team can start to help.

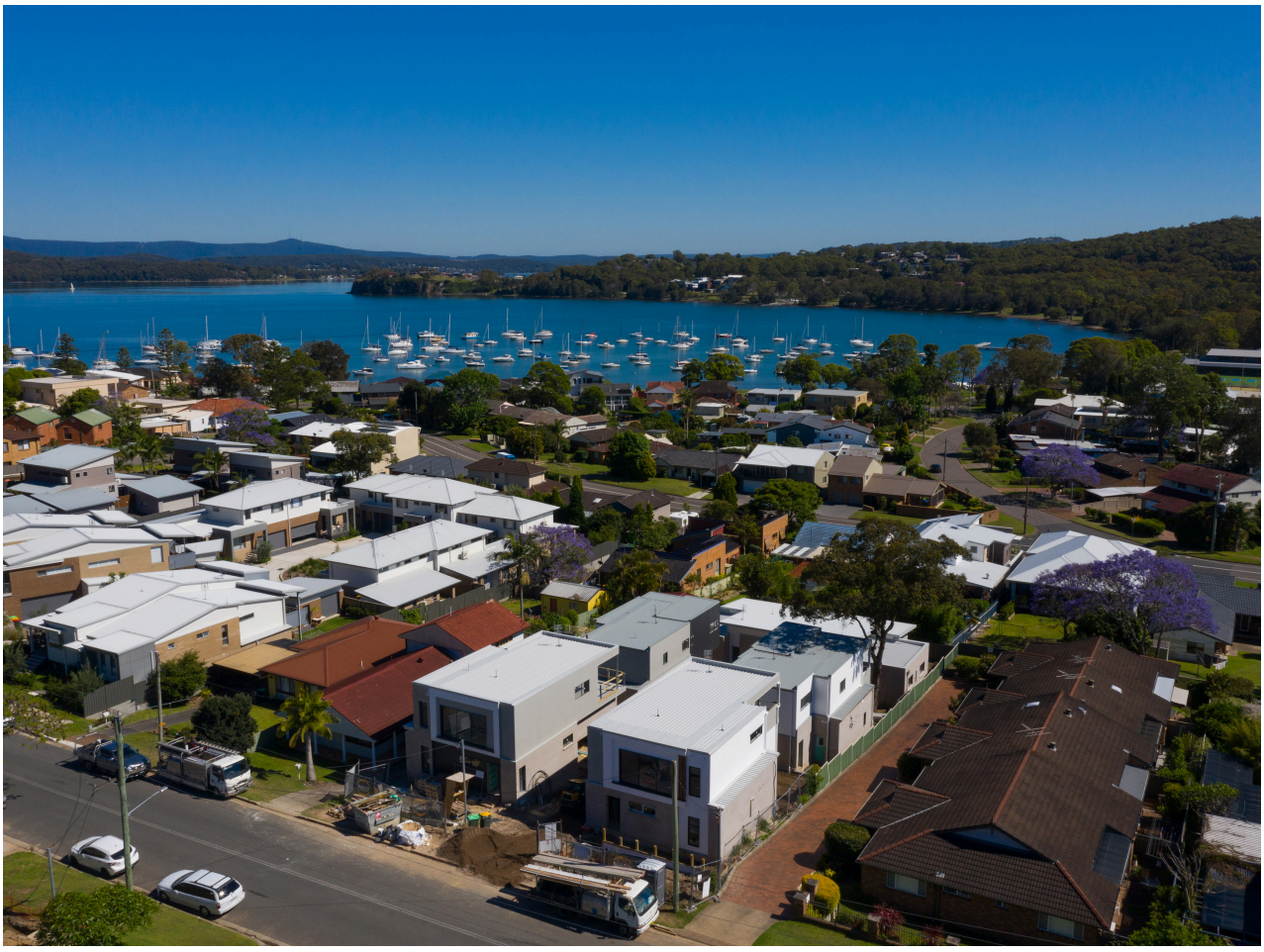
If you haven't yet, now is the time to start to meet a few of your consultants. Hopefully you have a list of people you have already seen involved in other projects that you have looked at. Your Architect and Town Planner are your "go-to" consultants. Contact them, and ask them for half an hour of their time. Quiz them on approx. costs, not only for their services but also other consultants that they might refer to in the development process.

A good Architect or Town Planner should be able to give you an indication of the types of build costs their other clients are currently being charged, so a half hour meeting should have your spreadsheet starting to take shape.

The other port of call is your local council's website. They will provide you with details on all their costs, from Pre-Da meetings right through to DA application Fees and Section 94 contributions. Don't know where to start, call your council and ask to speak to the "duty planning officer", and they will be able to point you in the right direction.

It also helps if you have a real life example to refer to. Perhaps you have your eyes on a property you think might just make a great deal. Use it as an example when speaking to your Architect, Town Planner or Councils Planning Officer. There's nothing like running a real life example through the numbers to see if it stacks up.

Lastly, repetition is the key. If you look at deal after deal after deal, you will soon become really familiar with the numbers, and they will begin to become second nature. You will also see some similarities between the different scenarios, which will help you find shortcuts to make your own feasibility analysis much quicker.



Description of Project:		
Project Outcomes:		
Estimated Sales Prices:	$	(a)
Development Site Purchase Price	$	
Stamp Duty & Legal Fees	$	
Rates/Land Tax during holding period	$	
Consultants Costs	$	
Council Contributions	$	
Demolition Costs	$	
Total Dwelling Floor Size: m2 x Construction Price $ / m2 Total Construction Costs	$	
Contingency Allowance	$	
Landscaping Allowance	$	
Additional Associated Costs	$	
Connection Costs	$	
Connection Costs	$	
Agents Fees	$	
Legal Fees	$	
Development Finalisation Costs	$	
Development Finance	$	
TOTAL DEVELOPMENT EXPENSES	$	(b)
Gross Profit = Sales Prices (a) minus Total Development Expenses (b)	$	(c)
Gross Profit (c) / 11 = GST payable	$	(d)

NET PROFIT = GROSS PROFIT (C) - GST PAYABLE (D) = MARGIN OF SAFETY