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Edition



+ SUCCESSFUL APARTMENT DEVELOPMENT

Maximising the chances of success
for apartment developers

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Today's Market



Many huge apartment developments are being built in Australia's major capital cities and there are many adverse reactions.

People are now aware that the resale value in massive apartment complexes is very poor if not negative. Do they cater for happy harmonious living or are they human filing cabinets in the sky?

Often in larger developments there are a number of apartments that are not pre-sold and are sold when the development has completed construction. This leads to lumpy cash flow for the developer and not being able to proceed with another development quickly.

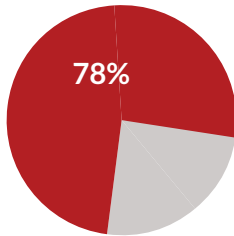
Assembling large sites has become difficult. We will see more smaller developments.

Smaller developments will afford a more boutique lifestyle, funding will be easier, cash flow is smoother, risk is less and the development will sell quicker.

Always Go for It! Go for the most you can achieve within the rules.

.....
Rather than massive developments the alternative is with smaller boutique developments focusing on community and other benefits and suitable for owner/occupiers. This will also improve sale prices.
.....

Lifestyle and Community Living



OVER THE PAST
25 YEARS, THE NUMBER OF
OCCUPIED APARTMENTS
IN AUSTRALIA HAS
INCREASED BY
78%

Australian Bureau of Statistics,
Census of Population and Housing 1991 - 2016

Roof top lifestyle will become commonplace and green and “Right sized” spaces sought after. The feedback we receive from a host of sources points towards:

- » Rooftop gardens and BBQ's
- » Greenery
- » Sitting areas
- » Entry lobby and access to garden at ground level
- » Close access to cafés
- » Collective areas on each floor or each two floors
- » Flexible group areas
- » Great access to public transport and infrastructure



Profitability

Property has been a real winner for many years, this is largely due to the increasing population and the excess of demand versus the delay in supply. At some point this ratio will change.

By far the majority of people who completed their first apartment development did not achieve the profitability that they originally forecast, maybe up to 80%. This is one of the major reasons why Australian banks find it difficult to lend to people with no or low track record in development. They have seen the train wrecks. The industry recognises this but history continues to repeat itself. Strangely there are no statistics on this. Why is this so?

This is a terrible situation. Why would you even bother to do a development? Would you do it again? Would you be able to do it again even if you wanted to? Why did this happen?



The developer is the last person to get paid and therefore the last person to make a profit. Everyone else gets paid first. Why take that risk and feed everyone else unless your result is exceptional?

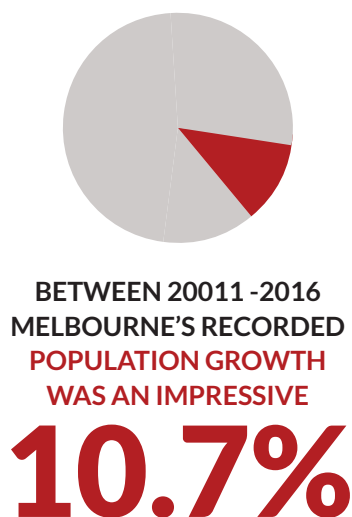
It is critical that the development process is understood and managed superbly. This is key to your profit. The most important first step in the process is getting the Feasibility right. The Feasibility is essentially a business case that takes into account your development strategies, local markets and demographics and site specific planning issues.

Infrastructure

Density is required in large cities to better utilise infrastructure.

Infrastructure includes road, public transport, sewerage, stormwater drains, power and internet. If the city continued to grow outwards, travel times would become excessive and infrastructure become stretched, leading to a breakdown in social cohesion.

Melbourne is characterised by villages. This is where shopping, schools, locality, public transport, urban character, demographics and lifestyle all come together.



Australian Bureau of Statistics,
Census of Population and Housing 2016

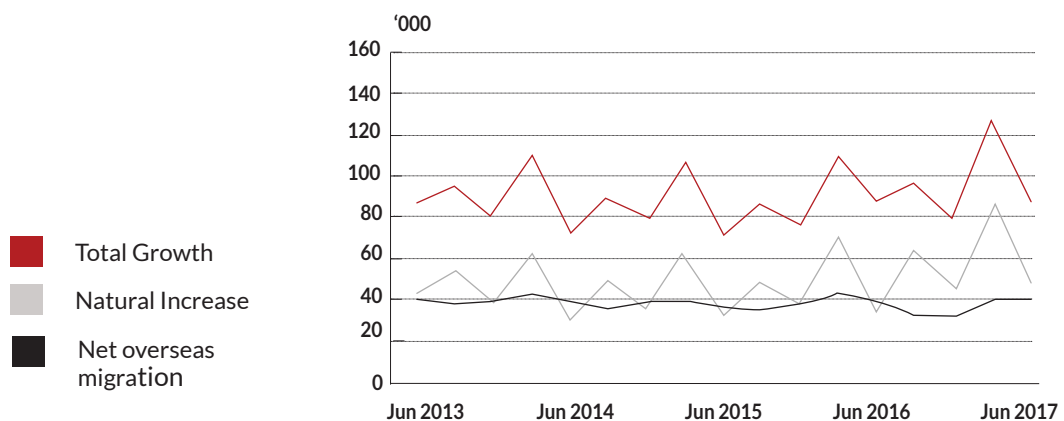
POPULATION GROWTH RATE

year ended 30 June 2017



POPULATION GROWTH RATE

year ended 30 June 2017



Australian Demographic Statistics, June quarter 2017

Strategy

Most developers do not have a strategy document that they regularly review and where they 'plug in' advice from experts.

Your development strategy is intrinsically tied up with your finance and your access to capital.

.....
It is important to have a tax strategy in advance where you have taken strong advice from your accountant, lawyer or financial adviser.
.....

You should have worked through a strategy where you have decided whether you want to build your wealth by holding product or make a profit at the end of each development.

If you sell at the end of each development it is inevitable that you will pay tax.

If you hold the property at the end of the development and rent the accommodation you will pay tax on your rental returns. Your tax will be reduced with interest, depreciation allowances and other expenses.

Disclaimer: every situation is different and this discussion by its very nature is general. Specific situations can vary this.



Demographics

Social intelligence



Most developers do not properly research the requirements of the local area. How can you create a project properly if your development is not targeted?

What do people REALLY want to live in?
What is the market in that area?

Visit or research other developments planned for the area and surrounds and what markets they are targeting. Also research what products sell for. Convert that to \$/square metre to get an indication of value for money.

Understanding the current and shifting tide of population in the area/s you are looking to develop in will inform the development that you will design and the marketing strategies that you will employ to sell your development.

You need to keep clearheaded. Carrying out similar deep research will turbo charge your development.

Key indicators of change include trends in local shopping / café / entertainment scene, festivals and local attractions.

Other indications of shifting populations will include: numbers increasing / decreasing at local schools – primary, secondary and tertiary, proposed local infrastructure initiatives and local strategic planning forecasts.

Local news and Council initiatives are often good indicators as to upcoming social shifts. Also be aware of the ripple effect of what neighbouring areas are experiencing.

We are also observing that many people living in apartment developments lack the overall community amenity that they had in a single house. This especially applies to larger apartment developments.

Many developers have built as many apartments as possible on a site without considering the social aspects. The social aspects appear to be part of what people look for when they are buying apartments to live in for themselves, including those which are no longer new but are established. This translates to resale value.

Market Research

.....
If your area has a range of demographics this may determine your mix of one bedroom apartments or 3 bedroom apartments.

Laziness is no excuse for doing the hard yards.

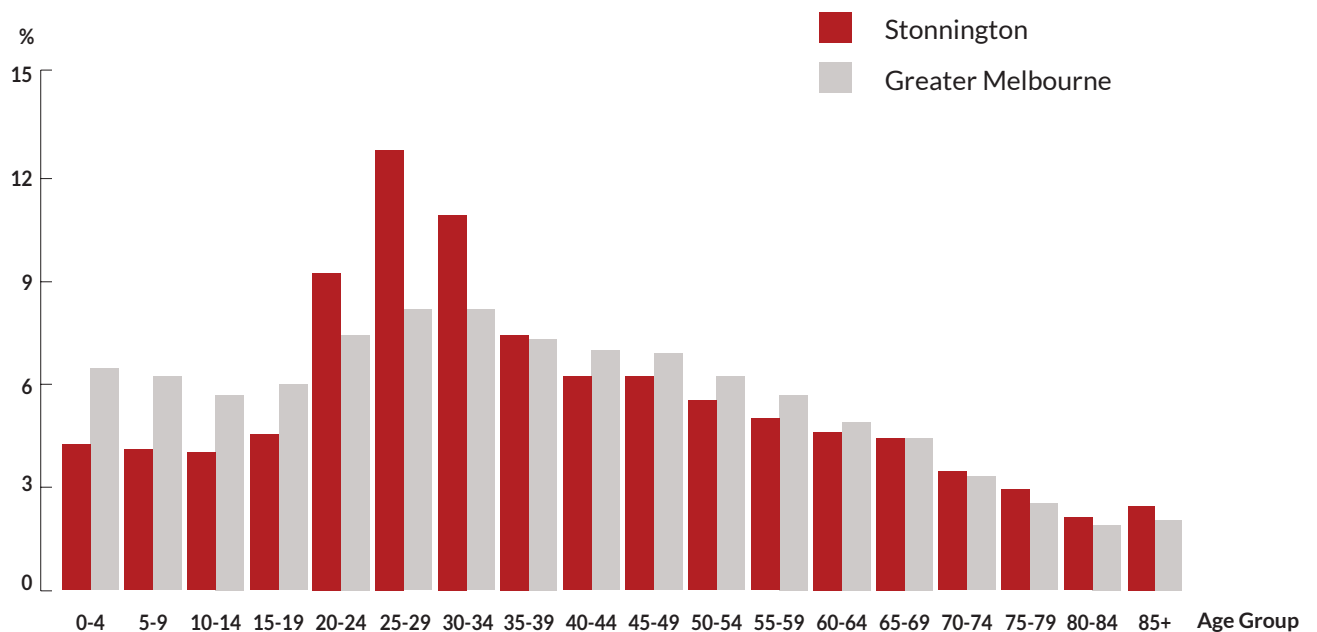
With a strong sense of who is moving to or wanting to live in the designated area, extending your research into what each of these sectors requires in terms of accommodation will contribute in a major way to your design brief. For example student accommodation is quite different from young families or couples downsizing or empty nesters downsizing and wanting a lifestyle change.

Researching current data bases, local council information, (the internet) and discussing with local estate agents and the Australian Bureau of Statistics (ABS) are alternative ways.

You need to know the ideal size of each unit, the mix of units, the accommodation within the unit such as the number of bedrooms, bathrooms and balconies. Also the number of living spaces, kitchen size, type of laundry, front entry, study, powder room and access to secluded private open space; as well as the ratio of car parking spaces and the access via driveways and into the apartments.

AGE STRUCTURE WITHIN THE CITY OF STONNINGTON

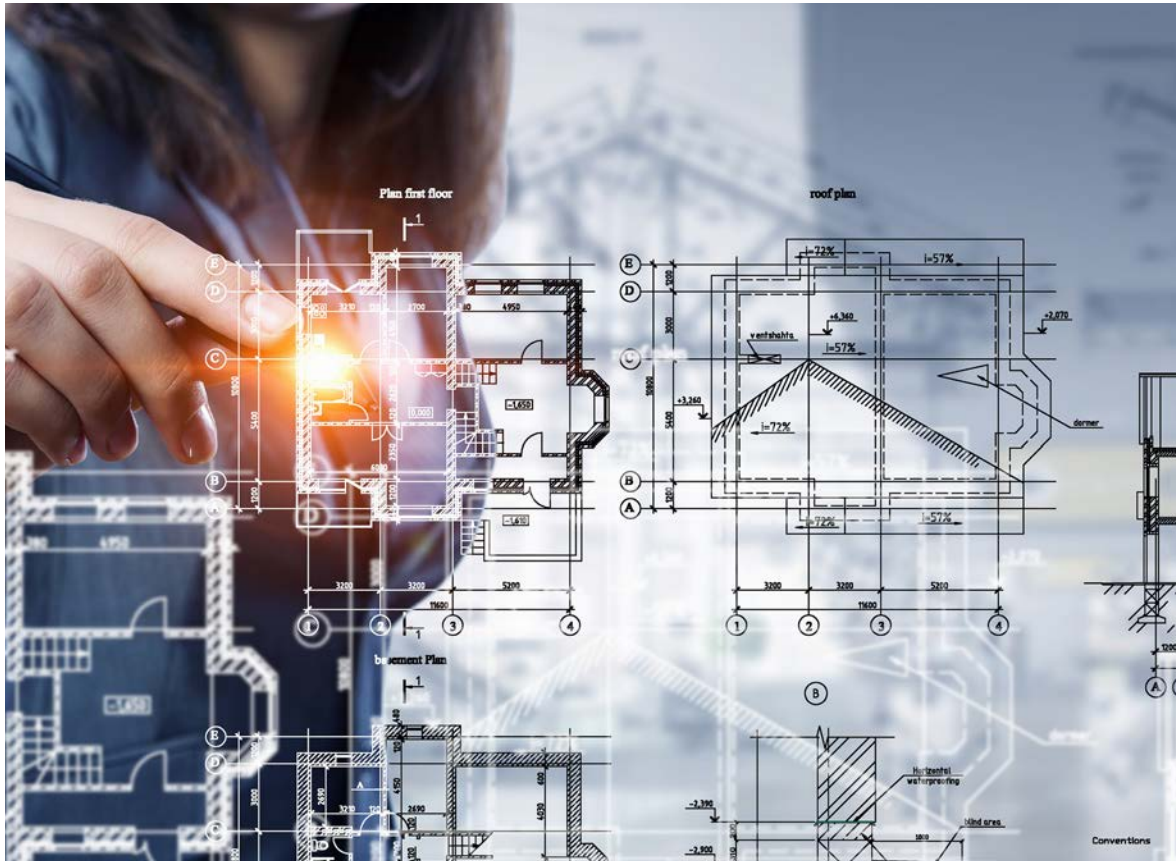
as a percentage of the total population in 2016



Australian Bureau of Statistics, Census of Population and Housing, 2016

Point of Difference

and diversity in the market place



Too many developments look the same, have the same accommodation, and cost the same. Are the same!

.....
 Consider ceiling heights and window heights as sellable luxuries as well as great indoor/outdoor spaces at apartment level and ground floor.

The beauty of having a strong body of information outlining who your target markets are, what your target markets want, and what is currently offered in the market place is that you can easily assess what you can offer as a point of difference that will give prospective buyers and renters a clear choice.

Important considerations include not less than 50 m² of unit area, creating a connection with the locality through the name, built material, and reference to local icons and attractions.

Create a uniform theme or idea that talks to your target markets and has a different appearance – a good looking kerbside appeal.

Indoor/outdoor access and rooftop gardens adds extra space and liveability.

Site Restrictions/Opportunities

Assessing a good potential development site

Size, shape and location, location, location will be the fundamental information that will govern the suitability of a site for development.

.....
There are many types of easements including party wall easement, sewerage easement, stormwater easement, and carriageway easement. Easements can be expunged and any assets re-diverted but sometimes at great cost.
.....

Site impediments include easements, contaminants, surrounding buildings, traffic hazards, flooding and fire.

Site opportunities include: views, proximity to natural or other local features, orientation to the sun, vegetation, sloping site, public transport, shops, cafés and coffee.

A trusted and experienced professional will be able assess the site impediments. Usually the opportunities are obvious and why you are looking at the property in the first place. Your trusted professional can carry out a Design Feasibility. This will enable calculations showing the yield on the property and size of each unit.

Different building types and opportunities can be tested in line with your market research. This will include the number of apartments and their respective accommodation. This information in turn will feed into the Preliminary Financial Feasibility and ultimately determine the viability of your site.



Finance

.....

Recently the APRA changes to the lending institutions rules and regulations have made it a difficult process and your broker will be invaluable in cutting through the paperwork.

.....

Most novice developers struggle to obtain proper funding for the purchase of their development property and later for construction finance. The consequences for getting this wrong are huge.

You should take finance into account before your purchase. Approach your lending institution for an indication of the requirements and fees and charges.

An alternative to going to your lending institution is to discuss with a finance broker your position and what you're trying to achieve. An experienced broker will have a number of institutions they use. Each have different requirements. By doing this you could place yourself in a position where you can cherry-pick the best solution for you.

Time and Timing



Timing has a major part to play in the success of a project and the final profit margin.

Timing is specific to each site and the financial model and strategies that have been negotiated. That old adage of TIME management!

The planning permit process is a major time contributor as is construction.

The right time to go to market - being able to sell stock in a rising market and not having a protracted sales period - we want them to go like hot cakes!

Holding costs - do you have the means to sell at the right time - is your land vacant or are you able to earn sufficient rental on existing property? Will any leases and their expiry dates become a timing issue?

Time allocation for your Planning Permit is essential. Have you ensured that your development fits within current strategic planning within your area? Sitting within a comfortable envelope of what is expected within the precinct and not incurring time penalties for contrary design will assist with an already unpredictable permit process.

Building a Business Case



Not doing the due diligence at the feasibility stage is hugely risky. It has the ability to wipe you out financially.

Real life examples:

Not realising that there was a transition overlay on the site which reduced the number of stories from 3 to 2 even at VCAT.

Not realising that in a part of Collingwood a huge number of mass apartments were being released which would affect other apartment developments.

Not realising that a site was not well serviced for stormwater and sewer and power and the provision of these would cost substantially more.

Obtaining a planning permit and then delaying construction and that delay resulting in changes to the building regulations which made development more difficult.

Your feasibility should include such items as cost of the land and purchase costs including stamp duties, other government charges, legal costs and costs to settle as well as –

- » Demolition costs
- » Special costs such as unusual connection to services
- » Construction costs
- » Landscaping and rooftop areas
- » Floor coverings and window furnishings
- » Consultant's costs such as architects, engineers, soil testing, land surveyor, creation of titles
- » Council fees and open-space levy
- » ESD report
- » Traffic report for car parking
- » Landscape architect
- » Garbage storage and removal
- » Possible VCAT appeal
- » Costs of holding the property prior to construction
- » Cost of holding the property during construction and before settlement
- » Finance costs
- » Soil testing
- » Profit and percentage profit based on costs
- » Any other relevant expenses
- » A "what if" scenario to test the sensitivity of sale or rental prices
- » Sale prices, agent and advertising costs

Be careful of GST for each item.

You should upgrade your feasibility each time the situation changes and also at the end of each stage, such as when you achieve the Planning Permit, obtaining construction prices, obtaining sale prices.

Design Stage

The design stage is where the profitability of your project is made or lost.

Get it right and you will do well. Brilliant design is not a matter of beautiful aesthetics. It is a matter of using the information you have collated and converting it. It is cold, hard, calculating layouts. Getting the numbers right and always referring back to the data collected.

Your own preferences or your capital preferences must take second place to the research you have carried out. Always keep within the feasibility.

Constantly check that you are on target.

The secret to a good layout is where each apartment is very efficient with few passageways and optimum room sizes. Waste space is a waste of money. Have your Architect design apartment layouts that work, are efficient and great to live in. The same applies with the layout of the site where every square millimetre of the site should be used well and efficiently with short driveways and ramps and as much space as possible devoted to buildings and still allowing for landscape garden areas and trees. Long driveways generally lead to a poor layout and setbacks from all four sides should be the minimum allowable under the Code.

Once layouts have been sorted out the look, materials and style can be considered and make a major contribution to the sales process and liveability.

Choose your materials and construction technique early in the process. The project must be buildable and at the right price.

There are many horror stories where the developer and Architect lost focus and got carried away using their own values and thoughts.

Your Architect should have an excellent demonstrable track record in this area. Ask your Architect to obtain quotations for sub-consultants such as land surveyor.

Discuss with your Architect whether you should have a separate consultant town planner. Will you require a landscape design? When will that be required?

You may also require a traffic consultant. You probably will also require an ESD assessment. You will need to assess garbage and its storage and removal. Storage for the units and bicycle parking are other items.

There are always a number of alternatives in laying out a site and laying out the interior of each unit. Ask to see those alternatives.

Each apartment is to have workable spaces with optimum sizes. Internal amenity is a major issue with Councils. Room sizes that work, excellent natural light for each room and good orientation to the sun are some of the issues.

When you have a preferred design you should hold a meeting with Council to discuss the design's suitability. Listen carefully to the Council planner's feedback. You should have selected Architects and town planners who are also excellent communicators and will guide you through this meeting. Generally adopting a collegiate and reasoned approach with the Council officer is the pathway to success.

Always go for it! Go for the most you can achieve within the rules and even stretch the rules a little.

Dealing with Council

Warnings and allowances



Council officers aren't idiots! They have heard all the tall stories before! And a lot worse! Many times!

Always be respectful of council officers. They are the professionals not the politicians. Openly discuss what you want to achieve and seek their honest feedback. Discuss issues without heat and be prepared to offer alternatives to any of their comments. Take on board their comments and adjust your design if appropriate.

.....
Your Architects should now make the necessary changes to satisfy you and also Council. The design itself must be buildable and fit within your costing feasibility.
.....

After the meeting with Council it is important to discuss thoroughly with your Architects and town planners the outcomes and whether the design needs to be altered.

The key to this is an excellent design that will be a brilliant outcome for you.

Remember you are creating your business.

At this stage also you might find it beneficial to discuss points that you think are contentious with your neighbours. We find that it is usually well received and makes the process smoother.

Your Architects can proceed to complete the design and all the necessary drawings and documents that are necessary for lodgement for a Planning Permit.

What Council is Mainly Concerned About:

.....
Preserving the natural environment, ESD, energy efficiency, water run-off, sewage and stormwater availability are regularly raised.
.....

Council are concerned about a number of issues and here are some of the major ones. Going to Council with these sorted out is essential for your credibility.

Council are mainly concerned about a thorough site analysis plan, shadows onto neighbours or onto other units and garden areas in the development.

Streetscape in some areas becomes relevant especially when tall buildings are involved.

Overlooking of neighbours is a real no-no and massive screening around balconies is verboten. If your proposal is a huge box it will get the thumbs down. It will need articulation and great façades.

Balcony access off living areas is critical and you should make sure the balconies are useable.

Workability of car parking and turning circles is essential and has to be in accordance with Australian Standards. Council require cars to exit the site in a forward direction.

Rubbish bins, air-conditioners, hot water services, solar panels and service pipes will also be on the list.



Planning Permit Stage



Nurse, nurse, nurse the way through!

Your drawings, other documents and forms and fees have to be lodged with Council. It will take Council a couple of weeks to assess the information. Council have 60 days in which to issue a permit unless the "clock stops" for any particular reason.

.....
Council may request further information where they believe you have not fully complied with the level of documentation required.
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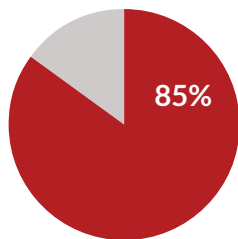
Council may also strongly suggest that you make some design changes to fit their requirements. The officer assessing your application will probably have assessed your application in conjunction with the senior planner to whom they report. It is critical for your Architects to be fully aware of what Council are trying to achieve and also what you are wanting. Very often your Architects will have a better design that satisfies both.

Once Council are satisfied that you have provided all the information and fit with their requirements they will instruct you to advertise. Advertising generally takes the form of posting letters to surrounding neighbours and placing a sign on each street frontage. Some councils will advertise entirely themselves on your behalf. Other councils will direct you to carry out the advertising yourself.

.....

Weigh up the cost of VCAT and the delays and decide if it is worth it. This arithmetic will constantly be a consideration.

.....



85%

OF THE TOTAL PLANNING PERMIT APPLICATIONS SUBMITTED ACROSS VICTORIA IN NOV 2016 RECEIVED NOTICES OF DECISION TO ISSUE PERMIT (INCLUDES AMENDED PERMITS)

[dpcd.vic.gov.au / PPARSReporting7.9](http://dpcd.vic.gov.au/PPARSReporting7.9)

Advertising takes 14 days. At the end of that period you will be able to assess whether your neighbours have any concerns. Sometimes objections are very minor and low-key and other times you have commenced World War 3! Read objectively any objections and discuss with your Architects and Planners. Respond back to Council and demonstrate how your proposal meets Council objectives and how the objector's comments are incorrect, irrelevant or way off the mark.

At this point the Council planner will write a report hopefully in your favour. If there are very few objectors Council will issue a favourable Notice of Decision. If there are lots of objectors the matter will go to a committee of Councillors who will recommend to full Council the outcome.

If you do not agree with Council you have 60 days in which to appeal the decision to VCAT. The objectors have 21 days in which to appeal.

Generally the cost of going to VCAT is substantial and risky. For a small development the cost is excessive and an alternative should have been found before this point. However it only takes one neighbouring zealot for you to end up at VCAT! If they are unreasonable you are very likely to win, if they have substantial grounds you will lose. And you will probably deserve to lose! You probably should have seen it coming and should have found alternative strategies to not be in this position.

Once you have a Planning Permit you will find it comes with conditions. Your Architects and Planners will have also read those conditions and assessed what needs to be carried out at this stage to be included in the set of drawings and documents. They should be sent back to Council for stamping.

Your solicitor will then need Titles for settlement at completion and you will need to appoint your land surveyor to apply for a subdivision so that each apartment is on a separate Title. Even if you intend to rent them there is a good business case for them to be on separate Titles. There will be a common area and it is all managed by an Owners Corporation. Council needs to process that subdivision in conjunction with your land surveyor who will also need to lodge those documents with the Titles Office.

Once those drawings and documents have been stamped you can celebrate!

New Apartment Standards



New apartment standards by the Victorian State Government clarified a number of issues.



Australian Bureau of Statistics,
Census of Population and Housing 2011

Making sure that adequate daylight is allowed into all habitable rooms and that there is a 'reasonable outlook' from dwellings. Relying on screening to reduce views into habitable room windows of a neighbouring apartment is a no-no.

Bedrooms and also living rooms now have to have minimum sizes. 'Snorkel bedrooms' are still allowed but must have a minimum width of 1.2m to the snorkel and maximum depth of 1.5 times the width.

Noise penetration such as from mechanical plants, lifts, car parking is to be reduced.

Also energy efficiency guidelines were beefed up to use more solar energy ensuring that the orientation and layout used passive solar design to reduce the use of air conditioning and natural air flow.

Balconies were also targeted with an increase in area and dimensions. Landscaped communal open space is specified for developments with 40 or more apartments with 2.5m² per dwelling or a total of 250m² whichever is the lesser.

Accessibility guidelines for wheelchair users were also included so that at least 50% of dwellings comply with clear opening of at least 850mm at the entrance and to the main bedroom, 1.2m passageways and one bathroom that allows for people with walkers with minimum clear door opening of 850mm or 820mm. Features include a step free shower, clear pathways with a minimum width of 900mm.

Pre-sales

Warnings and allowances

.....
If you need to achieve pre-sales you should already have done your research as to the best company to use. You may end up by using the local real estate agent if they are capable. Make sure you choose the best. Make sure they have a strong demonstrable track record.

You may be in the position where you need to obtain presales prior to construction to satisfy your lending institution. Pre-sales can be expensive and take substantial time.

Your broker or lending institution should be sent a copy of the drawings. At this point you should re-assess whether to carry out presales or whether you can proceed ahead immediately.

During the planning permit process you should have been discussing with your marketer the design and the plans. You should also have been discussing what marketing information they require for presales. Provide floorplans with areas, colour boards and 3-D images. You will possibly have a website and maybe a marketing suite.

A good marketer will already have a shortlist of people to approach and also their marketing program.

Once you have achieved pre-sales, if required, and satisfied your lender, you will be able to proceed to the next stage.

Assuming you have your finances organised it would have been preferable to have appointed your Architects, engineers and others to prepare drawings for construction during the marketing stage. This saves time and consequently money! It also enables you to upgrade your building cost estimate and feasibility.



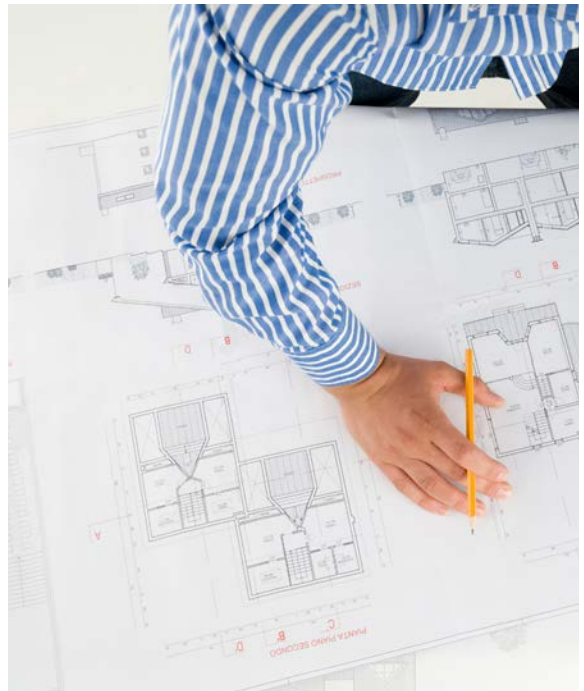
Construction Drawings

Construction drawings, specifications, computations and schedules

These documents are used to obtain construction prices, obtain a building permit, form part of the Building Contract and from which to build.

The drawings are carried out on CAD and extend the existing permitted Town Planning drawings into fully fledged construction documents. Your Architects will complete basic drawings and send them to the relevant engineers such as structural engineer, civil engineer, services engineer and fire engineer. Engineers will complete their work on the same CAD drawings as your Architects so that they are compatible.

While the engineers are carrying out the work your Architects will liaise with the engineers and other relevant consultants. They will have their internal interior designers carry out the internal design drawings and choose colours, materials, fittings and fixtures and schedules. Your Architects and interior designers should show you alternatives and material selections for discussion and for your approval. It is essential that all these items fit your cost plan.



During the design process you should have obtained prices for the construction work for your feasibilities. Prices could have come from a builder, an estimator or a quantity surveyor.

When the engineer's work is complete your Architects will check that the work fits with the Architectural drawings and coordinate those drawings.

It is now time to lodge drawings with your building surveyor for a Building Permit. They may be a private building surveyor or be the building surveyor at Council. You should have been consulting with them through the process to make sure there are no hidden gremlins.

You are now ready to go to the builder market for competitive pricing.

Obtaining Competitive Prices

.....
 The contract you sign with your builder should be fixed price and fixed time with penalties for late completion. It should also be even-handed. It is not good to have a contract that is less fair on one party. You will end up by suffering the consequences. After all it is you who is taking the risk!

In obtaining competitive prices or tenders it is important that builders have exactly the same drawings, specifications, schedules and documents. If they vary or are incomplete the prices you obtain will be meaningless. This is critical.

Only obtain prices from builders that you know or have researched thoroughly as being excellent in this type of work. That way you will be confident that you will get a great result from whoever wins the tender.

Your Architects should check the builders who should have a demonstrable track record of carrying out this type of work for other clients or have been used before. Good tight pricing carried out by your Architects acting as project managers will save you a lot of money and you will end up with a tightly controlled project.

When all the prices are received they should be analysed carefully. Often small anomalies can be sorted out at this time which may include repricing of some small items.

Build costs vs build time – When tendering for construction, cheapest isn't always the most economical or the best value.

It is time to return to your feasibility to make sure that the money is still on target. If not you will need to adjust the building price.

Construction

At last you can see all those drawings and paperwork converting into bricks and mortar, concrete and glass!

During the process your Architects will visit the site regularly and will monitor progress. They also will monitor any variations for unforeseen issues, any extensions of time and issue Progress Certificates for you and your lending institution.

When your builder has completed construction you will need your building surveyor to issue an Occupancy Certificate. Part of that is to have plumbing, electrical and a number of other items with certificates.

Settlement and or Rentals

You are now in a position to settle and to receive the monies outstanding.

If you were able to proceed without pre-sales or still intend to sell some apartments during construction, you will have gone to real estate agents for a proposal and accepted one. Their marketing program during construction or after construction is critical. The cost of empty or unsettled buildings is high.

The same applies to renting your apartments out, but the timescale is far less critical. Make sure that your tenants are the best possible. After all they are moving into a fabulous new building! Keep your estate agent on a short leash and make sure they have thoroughly checked each prospect and that the existing conditions report is thorough.

Make sure you have excellent landlord insurance.

Depreciation Allowances

If you are intending to rent the property out depreciation allowances should be carried out.

Appreciation allowances are often used as part of a sales strategy and sometimes included as part of the sales documents.

Depreciation allowances are carried out by a Quantity Surveyor. They are for submission to the Australian Taxation Office to minimise your tax legally. The depreciation allowances schedule each item in the construction and depreciates each item in accordance with the tax scale allowed by the ATO.

.....
Your accountant or financial adviser will have made you aware of this and advised you accordingly to suit your individual finances. Depreciation allowances are definitely part of the strategic thinking you should carry out at the very start of your project.
.....

At each of these stages your analysis and research will be challenged and questioned. Room should always be made for adjustments. A robust feasibility and business case will ensure a clear vision for consultants and authorities alike and a smoother journey across the finish line.

TOP 8:

key principles

1.

Understand

Understand your game plan of wealth creation or profit

2.

Feasibility

Always do a feasibility study and upgrade at each stage

3.

Efficiency

Do it right the first time

4.

Quality

Use a highly professional group

5.

Timing

Do it quickly and expeditiously

6.

Finance

Make sure you understand your lender's requirements in advance

7.

Target

Make sure you understand the marketplace

8.


Unique Selling Point

Have a carefully considered USP and make each apartment a little different if possible to provide choice

The Test of a Successful Development

- » You survived and you are healthily solvent!
- » Your relationships survived!
- » You need a holiday and can afford it!
- » Your financier is still talking to you!
- » You're so proud of what you and your team have achieved, that you take photographs, and post it on Facebook!
- » You want to do it again!

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