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Edition



+ **SUCCESSFUL
TOWNHOUSE
DEVELOPMENT**

Maximising the chances of success
for townhouse developers

Contents

Successful townhouse Development	<i>2</i>
Strategy	<i>3</i>
Demographics	<i>3</i>
Market Research	<i>4</i>
Point of Difference	<i>5</i>
Planning Restrictions/Opportunity	<i>6</i>
Site Restrictions/Opportunities	<i>7</i>
Finance	<i>8</i>
Time and Timing	<i>8</i>
Building a Business Case	<i>9</i>
Design Stage	<i>10</i>
Dealing with Council	<i>11</i>
What Council is Mainly Concerned About	<i>12</i>
Planning Permit Stage	<i>13</i>
Presales	<i>14</i>
Construction Drawings	<i>15</i>
Obtaining Competitive Prices	<i>16</i>
Construction	<i>17</i>
Settlement and or Rentals	<i>18</i>
Depreciation Allowance	<i>18</i>
Top 8 Principles	<i>19</i>
Notes	<i>20</i>

SUCCESSFUL TOWNHOUSE DEVELOPMENT



By far the majority of people who completed their first townhouse 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.

Strategy

The industry recognises that small, inexperienced, or first time 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.

You should have worked through a strategy where you have decided whether you want to build your wealth 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.

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

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.

Living in the area that you will develop in will always give you a deep intelligence into trending social shifts but also a bias. You need to keep clearheaded. Carrying out similar deep research will turbo charge your development.

Key indicators of change include trends in local shopping / cafe / 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.

Market Research

Laziness is no excuse for doing the hard yards.

With a strong sense of who is moving to or wanting to live in your designated area, extending your research into what each of these sectors require 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.

If your area has a range of demographics this may determine your mix of one bedroom apartments or 3 bedroom apartments (for example) or townhouses.

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, balconies, number of bathrooms. Also the number of living spaces, kitchen size, type of laundry, front entry, study, access to secluded private open space, powder room. As well as the ratio of car parking spaces and the access via driveways and into the units or apartments.

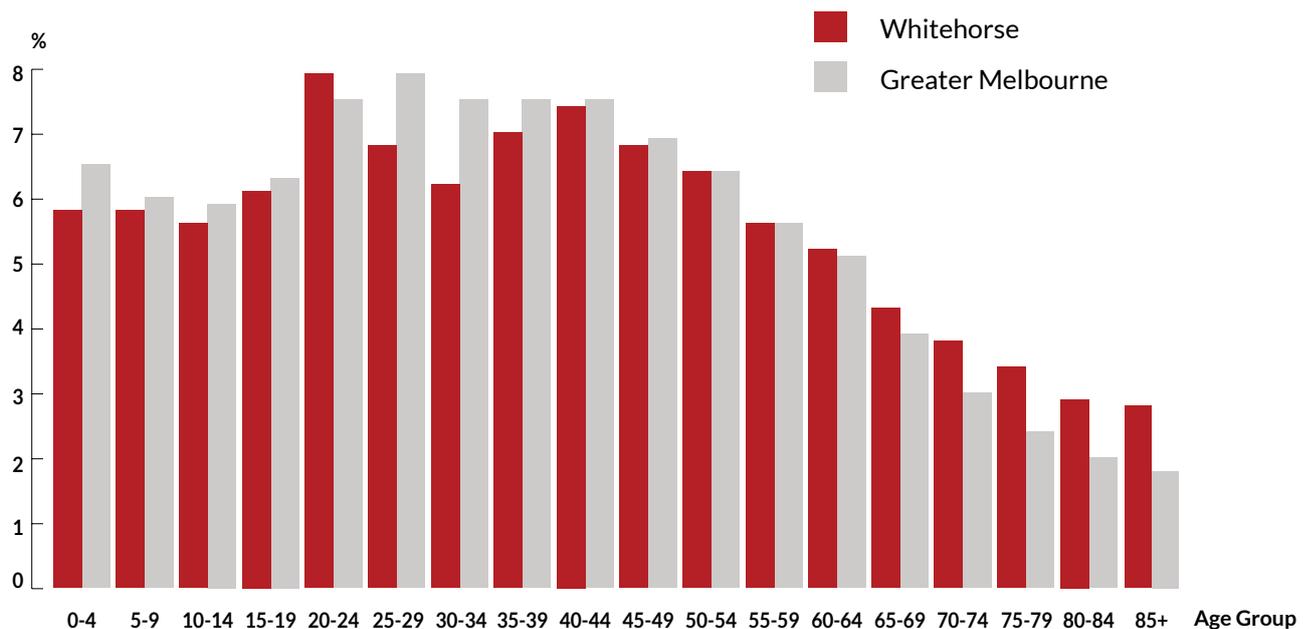
.....

There are a number of ways of doing this including researching current data bases, local council information, (the Internet) and discussing with local estate agents and the Australian Bureau of Statistics (ABS).

.....

AGE STRUCTURE WITHIN THE CITY OF WHITEHORSE

as a percentage of the total population in 2011



Australian Bureau of Statistics, Census of Population and Housing, 2011

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!

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

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 for your target markets is.... you can easily assess what you can offer that is 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.

Consider ceiling heights and window heights as sellable luxuries.

Indoor/Outdoor access and rooftop gardens adds extra space and livability.

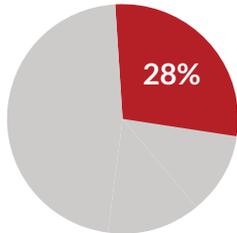


Planning Restrictions/Opportunity

What to look for in the actual property itself



All properties have restrictions on them. Most of these can be resolved with the correct information and strategy.



28%
**OF GREATER MELBOURNE
DWELLINGS IN 2011
WERE MEDIUM
OR HIGH DENSITY**

Australian Bureau of Statistics,
Census of Population and Housing 2011

The Zoning of the property for example Neighbourhood Residential, General Residential, High-Density Residential or Mixed Use will guide the number of units that can be designed on the site.

.....
Is the area being re-zoned allowing for a change of use?
.....

Planning Overlays such as vegetation overlay, developer contributions overlay, environmental audit overlay, Heritage, land subject to inundation, neighbourhood character and areas of Aboriginal Cultural Heritage sensitivity are critical to the end product and your profitability.

Does the site have various covenants such as single dwelling covenants or easements such as drainage, sewerage and rights of carriageway?

Existing significant vegetation on the proposed site as well as neighbouring sites needs to be carefully assessed and can restrict the development but also enhance its saleability.

Always view the Section 32 document and the Contract of Sale and discuss it with your advisers including your lawyer

Site Restrictions/Opportunities

Assessing what is 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.

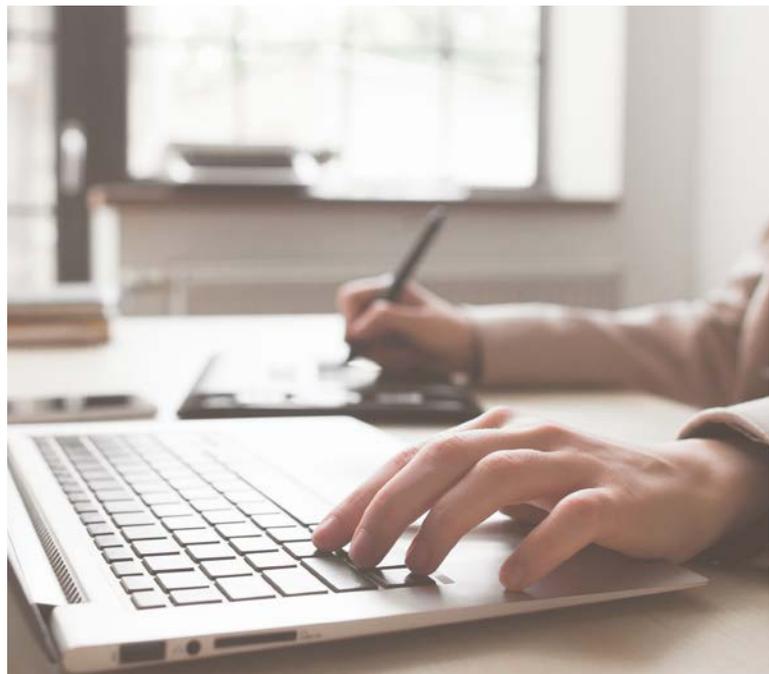
Site Impediments include easements, contaminants, surrounding buildings, traffic hazards, flooding, fire, sloping site, and vegetation.

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

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 preliminary site analysis and plans. Site Plans will enable calculations showing the yield on the property and size of each unit.

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

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



Finance

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.

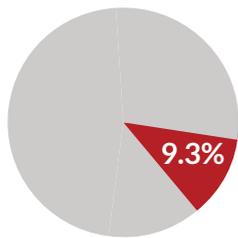
Recently the APRA changes to the lending institutions rules and regulations has made it a difficult process and your broker will be invaluable in cutting through the paperwork.

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



**OVER THE PAST
12 MONTHS, COMBINED
CAPITAL CITY
HOME VALUES HAVE
INCREASED BY
9.3%**

www.coreLogic.com.au

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 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 rental on existing property?

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.

Build costs vs Build time - When tendering for construction, cheapest isn't always the most economical!

Building a Business Case



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

For example: not realising that there was a single dwelling covenant on the site and not being able to have it lifted. 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 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 purchase 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
- » fences and driveways
- » landscaping
- » floor coverings and window furnishings
- » consultant costs such as architects, engineers, soil testing, land surveyor, creation of Titles
- » Council fees and open-space levy
- » ESD report
- » landscape architect
- » possible VCAT appeal
- » showing profitability
- » costs of holding the property prior to construction
- » cost of holding the property during construction and before settlement
- » finance costs
- » Estate agents fees and advertising or other marketing
- » sale prices
- » profit and percentage profit based on costs
- » a “what if” scenario to test the sensitivity of sale or rental prices.

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, calculated 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.

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

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 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. You will require a landscape design. When will that be required?



You may also require a Traffic Consultant if you have an extreme situation. You probably will also require an ESD assessment.

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 unit 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 who are also excellent communicators who 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.

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.

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

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

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

What Council is Mainly Concerned About:

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.

.....
Overlooking of neighbours is a real no-no. If your proposal is a massive box it will get the thumbs down.
.....

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

Open space for each unit needs to open off living areas and be secluded. It should have good sunlight access.

Security and surveillance of the front door also concerns Council for the occupants' safety!

Workability of car parking and turning circles into and out of car parking is essential and have 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.

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



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 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. At this stage 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.

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 or Planners.

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 Councilors who will recommend to full Council the outcome.

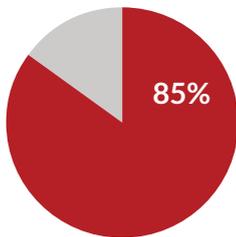
If you do not agree with Council you have 60 days in which to appeal the decision to VCAT. The objectors have 21 days in which to appeal.

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 the permit comes with conditions. Your Architects 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 Council to stamp those drawings.

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

Council may request further information where they believe you have not fully complied with the level of documentation required.

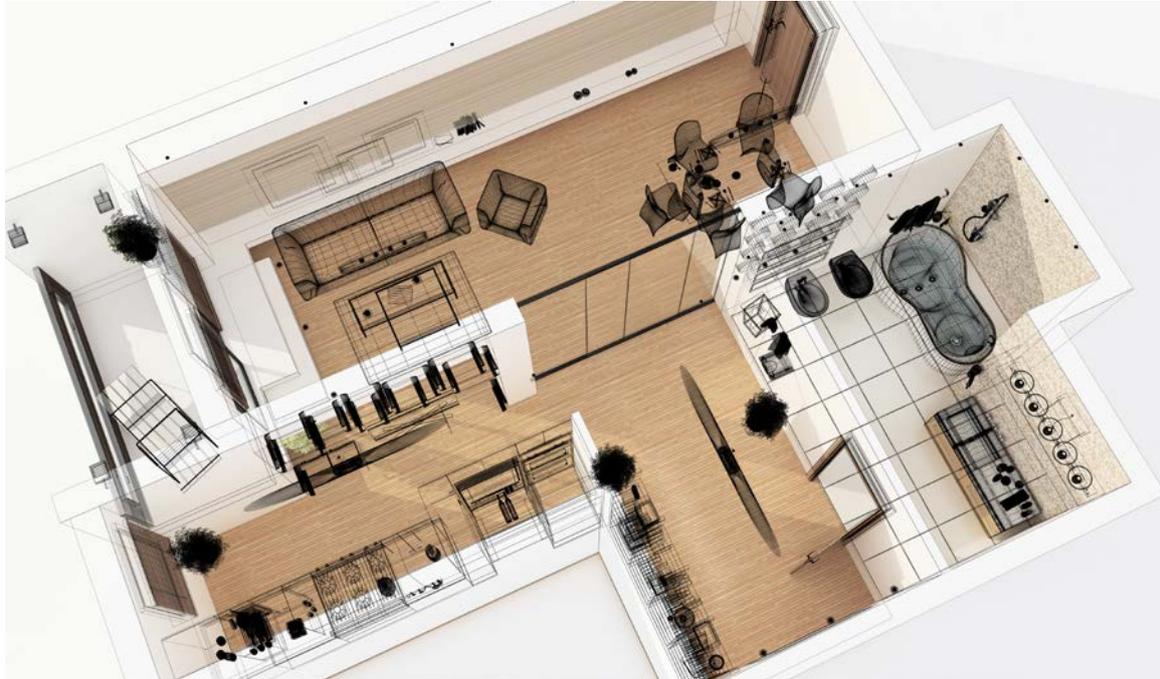


85%
OF THE TOTAL PLANNING PERMIT APPLICATIONS SUBMITTED ACROSS VICTORIA IN NOV 2016 RECEIVED NOTICES OF DECISION TO ISSUE PERMIT (INCLUDES AMENDED PERMITS)

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

Presales

Warnings and allowances



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

.....
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. You may need to provide floorplans with areas, colour boards and 3-D images.
.....

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

If you need to achieve presales you should already have done your research as to the best company to use. Unless you are talking very large apartment complexes you will probably end up by using the local real estate agent. Make sure you choose the best. Make sure they have a strong demonstrable track record in this regard.

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

Once you have achieved any presales, 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!

Construction Drawings

Construction drawings, specifications, computations and schedules



These documents are to obtain construction prices, obtain a building permit 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 and possibly services engineer depending on the scale of project.

Engineers will complete their work on the same CAD drawings as the Architects so that they are compatible.

While the engineers are carrying out the work your Architects will liaise with the engineers. 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. Both prices could have come from a builder, an estimator or a quantity surveyor.

When the engineers work is complete your Architects will check that the work fits with the architectural drawings and coordinate those drawings.

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 are now ready to go to the builder market for competitive pricing!

Obtaining Competitive Prices

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 and who are not too far away. That way you will be confident that you will get a great result from whoever wins the tender.

.....
The contract you sign with your builder should be fixed price and fixed time with penalties for late completion.
.....

Your Architects should check the builders who should have a demonstrable track record of carrying this out for other clients. 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 some repricing of some small items.

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

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!



Construction



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

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.

During construction all the items required by Council will need to be included and you will need to appoint your Land Surveyor to apply for a subdivision so that each townhouse 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. Usually there is also a common area that becomes affixed to the other townhouse Titles 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 launch those documents with the Titles Office.

Your solicitor will then have Titles for settlement at completion.

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 presales or still intended to sell some or all units 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 townhouses out. But the timescale is far less critical. Be sure to 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 lease and make sure they have thoroughly checked each prospect. Make sure that the existing conditions report is thorough.

Make sure you have excellent insurance!

Depreciation Allowances

If you are intending to rent the property out depreciation allowances should be carried out towards the end of construction.

Also 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 appreciates 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

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 townhouse 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!

Notes

A series of horizontal dotted lines for writing notes.

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