

# **ULTIMATE** REAL ESTATE SUCCESS **LIVE & VIRTUAL** **BOOTCAMP**

WORKBOOK - BRISBANE MARCH 2021





**SESSION TEN**

# **Strata & Construction & The Compound Effect**

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**ULTIMATE REAL ESTATE SUCCESS LIVE & VIRTUAL BOOTCAMP**

**STRATA TITLE**

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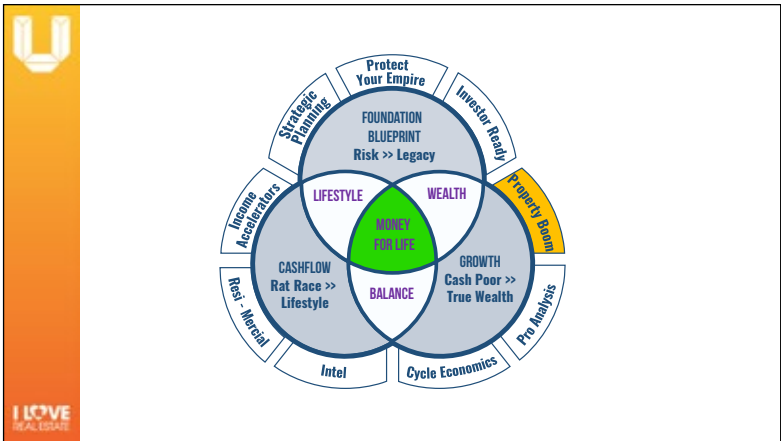
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**Strata Titling – Subdivision except with Buildings. Most of the time!**

Vertical separation

Horizontal separation

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## Strata Titling

- Can be a short time frame  
Chunk Deal
- Manufactured Growth
- Can be positive or neutral cash flow as well as potential to manufacture growth
- Can be partially liquidated on completion or refinanced




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## Big difference strata titling old vs new!

**New** – designed and built to meet the current standards, building code and planning legislation

**Old** – not built to current standards? Important to go in with your eyes wide open. What needs to be altered to meet the current standards and what will it cost to do so?




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## Strata Titling - Old

- Target high yield blocks of units
- Select properties with easy fire rating and utility separations
- Not all blocks are able to be converted




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## Target Old - Select a Suitable Property

- Duplex, Triplex, Fourplex etc.
- Industrial building with divisible ability
- Office Blocks
- Hotels / Motels
- Car Parks
- Storage Sheds




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## What Constitutes Suitable?

- One title, multiple dwellings
- Fire rated separation
- Separate services
- Parking
- Traffic access
- Saleable




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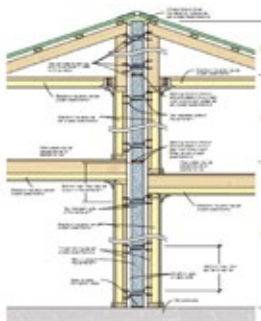
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## Fire Rating Strata



30/30/30

60/60/60 - Usual

90/90/90

120/120/120




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## Saleability

- Do market analysis on the need for your finished product
- Invest in a voluminous market
- If building for sale review sales data prior submitting plans to council
- If buying existing building check post renovated units with agents for comparables




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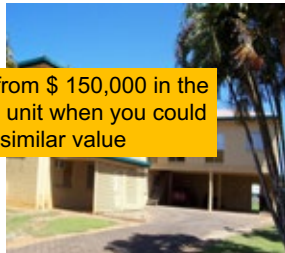


## Not All Units Work

### SET OF FIVE UNITS: 5 x 2 bedroom units

Two storey set of 5 units all 2 bedroom units. Units are sold onto private owners. All 5 units are tenanted. The perfect investment. Units are Strata titled and owner selling at \$150,000 - units 1-4, Unit 5 selling for \$160,000.

2 & 3 Bedroom houses sell from \$ 150,000 in the area – why would you buy a unit when you could buy a house for the similar value




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## Not all Properties should be Strata'ed

Commercial 592sqm main street central property with large residence of 2 bedrooms parking area with a two car garage. Modern view front with current food licence and an agency of The Rock Building Society with the only ATM in Town.

You could probably sell the shop separately but no-one will buy a unit above a shop separately in a regional area – it will rent but not sell. Metro area yes – but not regional!



\$295,000  
Rent \$32,000  
Good Cash Flow




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## Strata Titling Team

- Building Certifier / Surveyor
- Land Surveyor
- Town Planner
- Body Corporate Specialist
- Solicitor
- Mortgage Strategist / Bank
- Selling Agent




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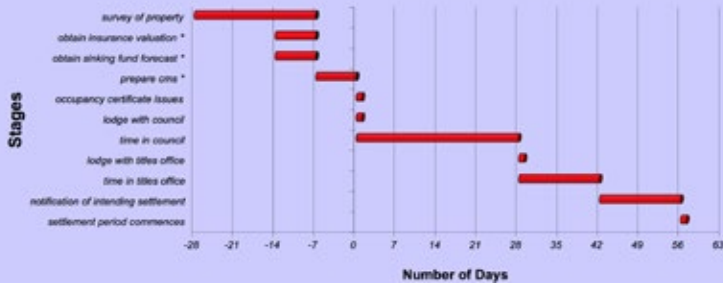
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### Body Corporate Establishment Time Frames (based on the Certificate of Occupancy Issue Date and Satisfaction of all Development Approval Conditions - Day 0)




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## Strata Titling an Old Block of Units

- 4 x 2 bedroom units
- Red brick, single story building
- 400m from beach
- Opposite shops, close to schools and railway station




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## Example: Reverse Feasibility

Purchase price	688,000
Stamp duty	27,000
Legals	5,000
Surveyor fees	10,000
Council fees	1,000
Titling fees	1,230
Renovation	40,000
Landscaping	10,000
Strata requirements	10,000
Holding costs	6,200
(50,000 interest + 1200 rates – 45000 rent)	
Sell Costs	<u>20,000</u>
Total Costs	<b>\$818,430</b>
Sale price	<b>\$1,000,000</b>
<b>NET PROFIT:</b>	<b>\$181,570</b>



## Block of 4 units - Strata Titling

Building works required to Strata for this deal:

- Separate water meters
- Fix driveway
- Install body corporate letter box
- Fire rating was all good



Purchase (incl purchase costs)	~\$485K
Strata Costs	~\$12K
Renovation (incl req'd strata work)	~\$60K
Holding Costs	~\$24K
Valuation per unit	~\$190K
Total Gross Valuation	~\$760K
<b>Total Gross Profit</b>	<b>~\$179K</b>



## Block of 3 units - Strata Titling

### The Property:

- 3 x 2-bedroom units
- Double brick construction with fire separation in place
- Under market rental at \$180 per week per unit

### The Numbers:

- Purchase price: \$400,000
- Purchase costs: \$15,000
- DA, surveys, body corp, LPI costs: \$12,000
- Water meter separation cost: \$5,000
- End value: \$570,000 (\$190,000 per unit)
- Selling costs: \$20,000 (if all 3 units sold)
- Total cost: \$452,000
- Profit: \$118,000
- Return on Cost: 26%



**Note: there's no holding cost because the units are positive cashflow**

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**LIVE & VIRTUAL**  
**BOOTCAMP**  
**CONSTRUCTION & DEVELOPMENT**

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**U**

**D.A & B.A**

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**What is a DA?**

- DA = Development Approval
- Council planning permit for proposed development – subdivision, multi-unit, industrial etc
- Assessed against Council Town Planning Codes
- Based on concept plans of proposed development
- Not ready (or approved) to build!

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## DA Opportunities

- Use your talents and knowledge, but maybe not your money to make a profit!!!!
- Can be on sold at DA approval stage or complete the project and sell or hold for cash flow
- If on selling at DA stage – Need to know costs for completed project to determine your DA approved sale price. \*\* Purchaser still wants to make approx. 20% for completing deal




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## DA – Factors to Consider

- Current zoning
- Land size, frontage
- Site cover (% useable land)
- Current and future town plan
- Demand for end product e.g. high density housing
- Comparable sales - Current prices for equivalent end product
- Efficiency of design




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## Design Stage

- Town Planner is KEY!
- Appoint building designer/draftsman/architect, surveyor, engineer, landscape architect, specialist consultants?
- Concept Plans
- Pre-Lodgement meeting with Council + your private town planner
- Final Design Plans




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## Application Stage

- Town Planner will prepare & lodge application with Council
- Council confirms application properly made
- Council Initial Response 60 days (RFI)
- Liaise and Negotiate
- Public notification
- Decision Notice
- D.A. (Permit + Conditions)




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## Sell with D.A Student Deal

- Purchased \$330,000 + purchase costs for Reno
- Plan to build two on back
- Projected profit - \$80,000
- Council proposed new structure plan to high density
- Sold to a developer with plans & permits for \$570,000
- **Profit \$240,000**




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## DA's and Creative Strategies

- Financing the deal with little money
- Option the deal
- JV the deal
- JV with Vendor
- Vendor Finance
- Long Conditional Settlements




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## Construction



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## Construction – What is it?

Building works that are completed under a “Building Contract”

- Structural reno
- Extension
- House
- Granny flat
- Units / Townhouses etc.



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## Team Requirements



- Members of Professional Associations e.g. Building Assoc., Institute of Engineers / Quantity Surveyors, Building Design Assoc.
- Insurances & certification for trade / profession - Provide copies to ensure current over project duration
- Familiar with Local & State regulations
- Up to date with latest laws, innovations & developments in industry



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## Team Requirements

- Ask what sub-consultants and contractors they use & confirm how much time they will be on the job
- Ensure team understands your time constraints
- Check on progress of individuals to keep them on target
- Check work thoroughly BEFORE paying invoices
- Pay invoices as soon as possible
- ENSURE YOU GET ALONG WELL!




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## What Do You Need to Supply to Your Builder for a Quote?

- Specifications list
- Working drawings (detailed design)
- Structural engineering
- Civil engineering
- Soil report
- Landscape plan
- Energy rating report
- Specialist reports e.g. BAL report (if necessary)
- Planning permit - DA Approval - if exists
- Building Approval & Plumbing Approval – if already got




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## Contract Types

- Construction contract method
- Payment Lump sum by negotiation
- Cost + %
- Construction Management
- Turn-Key or Progressive
- Design and Construct



Beginners should ALWAYS use Turn-Key




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## Design & Construct Service

- **Pro's –**
    - Single point of contact – more streamlined process
    - Reduced risk – single point of responsibility
    - Lump sum price
  - **Con's –**
    - Less flexible e.g. committed to 1 builder from start
    - Less control on timeframes e.g. don't have direct access to each professional
    - Less control on price e.g. can't negotiate fee for each professional individually
- Consider for single dwellings by inexperienced investors & long distance construction




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## How Do You Complete Reference Checks on a Builder?

- View past projects & speak to previous clients
- Visit current projects under construction
- Talk to Subcontractor, tradies, suppliers, regulatory bodies, insurance underwriter
- Contact RE agents that have sold the builders previous work
- Search State Building License Authority for Builders records / history
- Do Company & ASIC searches
- Get copies Insurances (Public Liability & Professional Indemnity), Workers Compensation (terminology varies State to State)




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## Other Considerations – Builder Selection:

- Building timeframe
- Inclement weather days and public holidays
- Liquidated damages for time over runs
- Read Building Contract
- Pacific Law to review building contract




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## How Can I Manage the Relationship With My Builder?

- Regular & structured meetings
- On-site visits
- Review budget & works program regularly
- Engage external consultant to inspect for quality control if you're not confident
- Complete proper handover at practical completion with a professional and check handover certificates (e.g. Form 15 & 16's) & warranties




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## PPR Construction

PLATINUM ACCELERATOR

PPR 1



- New Estate, Project Builder
- Land \$ 120K
- Build \$ 250K
- Sold \$ 570K
- **PROFIT \$200k**




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## PPR Construction

PLATINUM ACCELERATOR

PPR 2



- Design, Custom Build
- Land \$380K
- Build \$620K
- Sold \$1.3M
- **PROFIT \$300k**




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