

ULTIMATE

REAL ESTATE SUCCESS
COACHING PROGRAM

VIRTUAL BOOTCAMP

APRIL 2020 | 9. SUBDIVISIONS, 10. STRATA &
CONSTRUCTION & THE COMPOUND EFFECT



SESSION NINE

**How To Accelerate
Your Wealth With Simple
And Smart Subdivisions**




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SUBDIVISIONS


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Why do a Subdivision

- Low Risk when starting out
- Resi Funding
- Stack Strategies
- Time input minimal



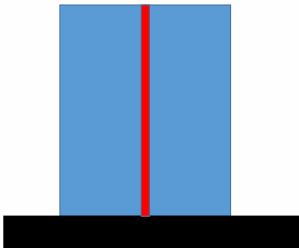
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Splitter – Dual Lot, Single Title

- Easiest type.
- Simply lifting an existing Title
- Done to save money on rates
- House may be located on boundary

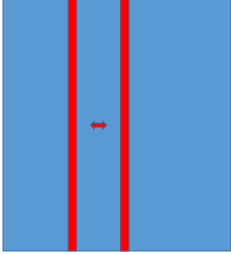


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Boundary Re-Alignment

- Full Council Application
- Moving the boundary line to reconfigure 2 blocks
- Can be done for similar blocks or battle axe

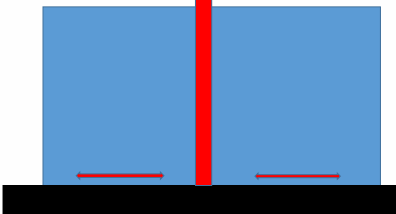


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Splitter Wide Block

- Block has a wide frontage
- May be split down the middle
- Frontage **MUST** meet Council minimum width

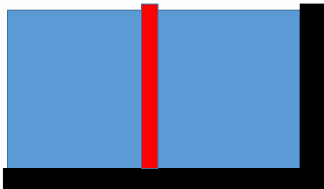


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Corner Lots

- Generally lower cost
- Easier access to services
- Additional street frontage is desirable

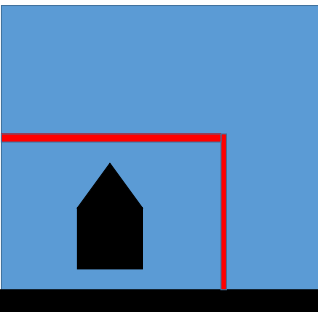


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Battle Axe – Hatchet Blocks

- Bit more Complex
- May contain Common property
- Added costs?
- Not as desirable



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Choppers / Large Lot

- Highest Degree of difficulty
- Commercial Funding
- Need for Pre sales
- Staged Development
- **NOT** your first Deal!



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Corner block subdivision + build
Profit \$650k



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Battle-axe subdivision deal




Feasibility	
Purchase price	\$426,000
Purchase costs	\$25,560
Strategy costs (Reno, build @ rear, subdivide)	\$317,864
Holding costs	\$22,280
Total Cost	\$791,704
End sales value (Estimate)	\$940,000
Selling Costs & GST	(\$43,569)
Total Sales Value	\$896,431
Estimated Profit upon completion	\$104,727

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Triple battle-axe subdivision




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Subdivisions



- Small Subdivisions are a relatively easy strategy as your consultants do all the work
- Where you need to be skilled is in the feasibilities
 - Know your costs
 - Know your market / end value

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Subdivision Team

Initial Team – Preparation and Planning

- Town planner
- Surveyor
- Draftsperson (proposal plan)
- Mortgage / Finance strategist
- Lawyer (specializes in developments)
- Engineers
- Civil, Electrical, Hydraulic




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Subdivision Team

During the Process

- Town planner
- Building designer (if applicable)
- Civil contractors (driveways, fill)
- Engineers
- Civil, Electrical, Hydraulic
- Electrician
- Plumber
- Fencing Contractor




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Subdivision Team

Final Stages

- Surveyor (Plan sealing)
- Lawyer – Register titles
- Mortgage / Finance strategist – Release or amend security
- Graphic artist (if selling)
- Real estate agents (if selling)
- Valuer



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Subdivision Team

Ensure that your team:-

- Are members of Professional Associations where relevant
- Are up to date and completely familiar with local and state regulations
- Have the necessary insurances and certification
- Understand your time constraints

Ask for sub-contractors and consultants recommendations

Check up on the progress of individuals to keep them on target

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The two most important Consultants on your Subdivision Team are your Town Planner & Surveyor

A good PRIVATE town planner is necessary!
A good Surveyor is vital!



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What A Town Planner Does...

- Highest and Best Use Assessment / Due Diligence Reports
- Development Applications (from small straight forward project to large and complex projects)
- Master Planning
- Expert Evidence and Planning Appeals
- Public Notification




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What A Surveyor Does...

- **Surveyors** make precise measurements to determine property boundaries. They provide data relevant to the shape and contour of the Earth's surface for engineering, mapmaking, and construction projects.
- **Surveyors are the unloved trade**
- **Surveyors know what's going on and are a valuable source of information and deals**



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1 into 5 Lot Subdivision Logan Area




- Demolish House, Create 5 Freehold Lots each with Dual Occupancy Potential!!!
- **Purchase Price** **\$760K**
- **Est. Strategy Costs – Subdivision** **\$540K**
- **Est. Sales x 5 Lots** **\$1.675M**
- **Est. PROFIT** **\$375K**

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Hester Street \$550,000

1 into 3
Made \$210,000 in 10 months




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Key Messages

- When determining Highest and Best Use of sites, be aware of relevant **Zoning, Overlays and Local Plan** provisions.
- Highest and Best Use is very site specific, there is not a 'one size fits all' option.
- **Planning Acts do change**, so watch this space for any relevant changes.

IMPORTANT – REGARDLESS OF HIGHEST AND BEST USE – DO WHAT YOU CAN FINANCE

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Subdivision Requirements

Planning Scheme / Zoning

- Get a copy of planning scheme and zoning maps of your area (either online or visit the council office)
- Find out the minimum lot sizes for each zone

Set-backs

- What are the distances? (Front, side and rear setbacks)

Access

- Can you gain access to the proposed new lot?
- What is the minimum driveway width?

Services

- Storm water, sewerage, power

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What to Look for


- **Sewer** @ front of property
- **Water** main across road = under road bore access
- **Stormwater** end of street
- **Telstra** @ front

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Due Diligence

- Visit subdivisions in your area and record prices and marketing strategies
- Research the infrastructure; amenities, schools, transport etc.
- Look at changes in infrastructure planned for the future
- Study the demographics of the area
- Complete feasibility of the project
= End Value less development costs.



KNOW YOUR MARKET



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Already on Two Lots – Example of Dual Lot Single Title ENMORE, NSW

3 BEDROOM TERRACE, GRANNY FLAT & VACANT BLOCK
 BUY PRICE - \$900K
 Sub Divide and Reno add Value \$1.3 million

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BUY \$900,000 **VALUE NOW \$2.4 MIL**

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Subdivisions give you flexibility




- Sell as Land
- Build and sell as completed project
- Build and hold for cash flow – if this is your option consider your design carefully and design for yield eg. Dual occupancy, micro apartments etc.
- Sell some keeps some

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Steps to Subdivisions



- Establish your team
- Get others on the path to find a deal
- Learn how to do a Feaso properly
- Do your Grid Variance Analysis /Know your Market
- Contract on deal
- Town planner / Surveyor
- Engineers if necessary, Project manager if necessary
- Contact Selling agent early

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Developer contributions

- Don't forget about **developer contributions!**
- Fees payable to the Council prior to issuing your statement of compliance
- Related to you bringing more people to the area
- Funds are used to upgrade roads, schools, hospitals, infrastructure and assets





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Sub-division Summary

- Best bang for you buck
- Easy starter
- Minimal Risk
- Predictable outcome
- Can be done as a Seller JV
- Can be Regional or Metro
- Relatively short time span – boutique subdivision
- Doesn't require a lot of your time – the team does the work



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Do you get that we like Subdivisions!

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Great Stacker Strategy

For example:

- Subdiv / sell land
- Subdiv / Build on land / sell one / use profit to ↓ Loan so remaining property is positive
- Subdiv / Reno house / Sell House / FREE LAND
- Subdiv / Reno house / Sell house / Build Duplex
- Great as a PPR Deal
- Great as a Seller JV Deal

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Great feel good student story from NZ

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SESSION TEN

Strata & Construction & The Compound Effect

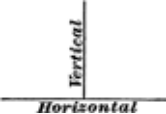


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STRATA TITLE





1



Vertical separation






Horizontal separation



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

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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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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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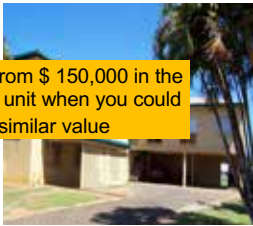

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Not All Units Work

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

Two storey set of 5 units all 2 bedroom units. Units are 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 residential front with a two Modern 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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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	\$818,430
Sale price	\$1,000,000
NET PROFIT:	\$181,570

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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
Total Gross Profit	~\$179K

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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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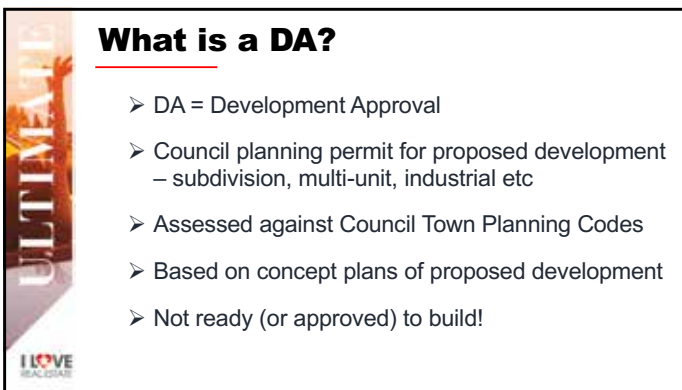
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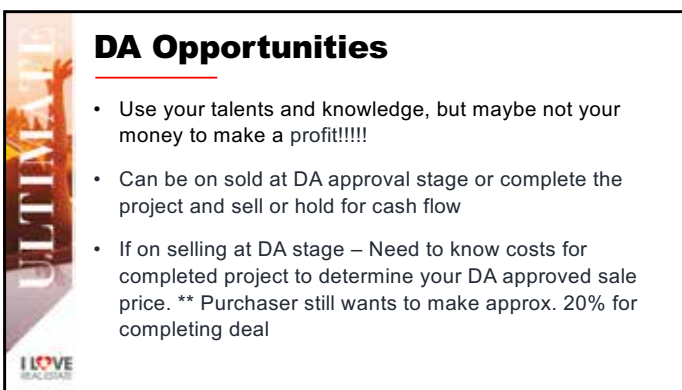
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DA – Factors to Consider

- 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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Re-Zoning Approval Process

- Applying to Council to change zoning of a site
- Potential for profit is high (intensifying usage of site)
- Due diligence & knowing needs of area is essential
- Downside costs can be minimal
- Can be a long and hard process!!

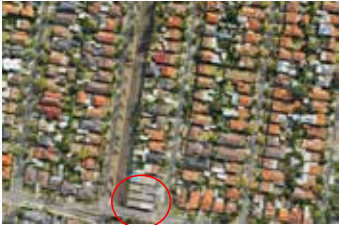
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Re-Zoning Deal

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- 1600m2 corner block in a built-up residential area
- Zoned industrial
- Piggy backing on Council re-structure plan
- New zone to become medium density residential
- Timing is everything!!!



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What is a BA?

- BA = Building Approval
- Building certifier/surveyor assesses design against National Construction Code of Australia (NCC)
- Working drawings (architectural drawings & structural engineering design), soil report & energy efficiency report submitted
- Building Permit / Construction Certificate issued
- Ready to start building



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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

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PPR 1



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

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PPR Construction

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PPR 2



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

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3 Townhouse Development

- Fast Tracked DA & Strata Titing
- Purchased \$530k
- Development Costs \$1.005M
- Sales \$1.785M
- **Profit \$250k**





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16 x 1brm Apartments

- Opposite Hospital
- Purchased 2 Houses – 1 Under Option
- DA, Construction, Strata Titled
- NRAS Approval
- Sold Off-Plan
- Sold 15 Kept 1

PROFIT \$600k

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The very best strategy is a Stacked Strategy!

For Example:
 Reno / Subdivision /
 Construction / Dual Occ
Or
 Unit Block Reno / Strata /
 Construct / High Yield
Or
 Commercial / Under rental /
 Reno / Add more



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3 Areas – 3 Strategies

	Area X	Area Y	Area Z
Property A	Strategy 1	Strategy 1	Strategy 1
Property B	Strategy 2	Strategy 2	Strategy 2
Property C	Strategy 3	Strategy 3	Strategy 3
Property D	Strategy 1,2	Strategy 1,2	Strategy 1,2
Property E	Strategy 1,3	Strategy 1,3	Strategy 1,3
Property F	Strategy 2,3	Strategy 2,3	Strategy 2,3
Property G	Strategy 1,2,3	Strategy 1,2,3	Strategy 1,2,3
	= 7	= 7	= 7
21 Different Choices			

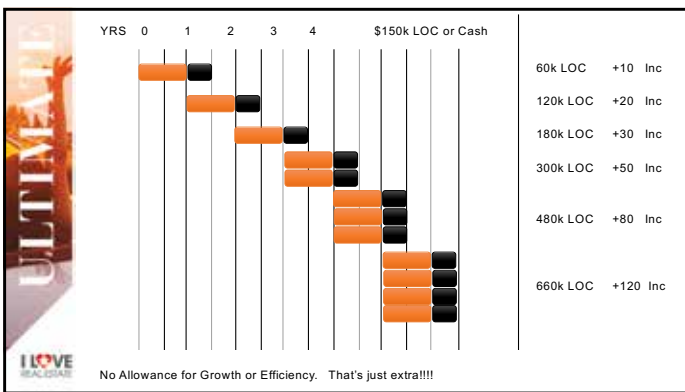
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SET AND FORGETS

Buy	\$300k
Subdivide	\$50k
Total	\$350k
Sell	\$280k
Cost of Block	\$70k
Build	\$350K
TOTAL	\$420K

**80% on \$600k
Redraw \$480k**

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Use Development Checklist on Ultimate Website !!!!!

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