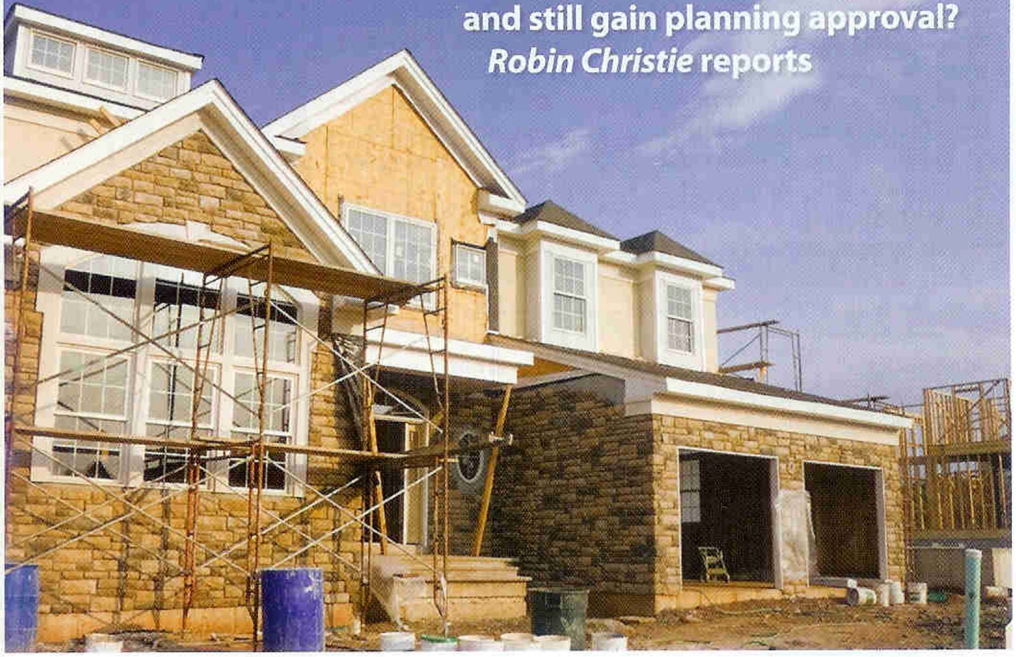
Subdivide and conquer

In today's tight property market, it can pay to think laterally and turn one property into two or more. But how do you choose a site that will boost your profits and still gain planning approval?
***Robin Christie* reports**



Subdivision can be a costly and time-consuming affair, riddled with rules and regulations. Not doing your research and picking the wrong property could have disastrous consequences. But choose your property carefully and you could make a handsome profit.

"Subdivision is a great strategy for current market conditions, where interest rates are relatively high and the cost of holding property is increasing," says Jo Chivers, principal of Hunter-based development management company Property Bloom.

"It gives you flexibility to either reduce your loan by selling off a new lot, or adding value to the property by registering a new lot and holding or developing it. Once the new lot is registered it automatically increases in value simply because it has its own title."

Technically speaking

Simply put, subdivision is when you divide one estate into two or more separate properties. It can make sense for various reasons. An investor might buy a property that's sitting on a patch of valuable land, divide the estate into lots and sell them on at a profit. Or in a high growth area an investor might want to buy a building and divide it into apartments to capitalise on increased housing demand.

There are several technical definitions that come under the umbrella of 'subdivision'. Dividing a property into an apartment block with distinct units is 'strata subdivision', as strata is a system of land title based on the horizontal division of air space.

Other forms of subdivision include 'Torrens subdivision' – dividing one land lot into two or more separate land titles, and 'community subdivision' – a development with common property such as roads that may be used by all residents.

"Any form of reconstitution is subdivision," says Tony Mangioni, director of valuation services with real estate advisor DTZ and lecturer at The Property School. "Torrens title is the strongest, then strata, and then community."

It's important to familiarise yourself with subdivision's different forms and get professional advice when looking for properties, as you'll need to know which type of subdivision your potential purchase might gain local government approval for.

"Before looking for a subdivision property, get your head around the local rules and have a friendly town planner who you can call at a moment's notice. When you put in an offer, you can always buy under a contract which is subject to due diligence or planning approval," says Justin Eslick, qualified town planner and one-half of Brisbane buyer's agency Investigate Property.

Money matters

When budgeting for your subdivision you'll need to start with a realistic target for how much the completed development will be worth, then subtract costs to calculate profitability.

"It's important to run a feasibility analysis on the subdivision, including possible costs for stamp duty, legal fees, surveyor services, council application and developer charges, civil works, and service connections such as gas, electricity and water," says Chivers.

Mangioni explains that his clients aim to sell the end product at market value, but budget for a sale at 10–20% below that target in case the housing market slows.

Location, location, location

Choosing a popular location and ensuring your subdivision reflects the demands of the local market are vital ingredients for making a quick sale.

"It's all about location, location, location. You must understand the market or there's no point doing it," advises Mangioni.

"Most inner-city areas are good for subdivision. Look for a larger building to subdivide into units, as the niche inner-city market is still going steadily."

Wayne Gersbach, executive director for residential development services with the Housing Industry Association, agrees there's big demand for housing in and around major cities, pointing out that land restrictions tend to dictate the type of subdivision that takes place.

"In major cities developers are constrained by the availability of land, especially in Sydney. Because of these constraints, you tend to get strata subdivisions, such as large apartment blocks. But housing demand will always mean a need for fringe sub-developments, and further out you see more lateral subdivision, such as Torrens subdivision," he says.

Gersbach sees Melbourne and Perth as the frontrunners for urban development, as they don't have the same kind of land constraints that Sydney is seeing at the moment, with Adelaide and Brisbane close behind.

Picking the right property

Once you've chosen your location, you'll need to secure a property that ticks all the boxes for subdivision approval with the local authorities. These include:

1 Understanding zoning rules

You should get to know the local council's subdivision guidelines, as you can't always rely on the property advertisements to be up to date.

"My biggest tip is not to listen to real estate agents. The zoning rules for subdivision in Brisbane changed in January 2007, but many blocks are still being advertised as suitable for subdivision using the old rules," says Eslick.

2 Comparable market value

Once you've familiarised yourself with local subdivision regulations, Chivers suggests looking at sale prices in the area, as you may find a suitable property that's sitting on undervalued land.

3 Check out essential utilities

Other considerations include whether your potential site could have problems with flooding or drainage.

Getting connected to essential utilities can also be an issue, explains Gersbach: "The major city policies focus on managing growth. They want to minimise their expenses, so

> "You can put in an offer under a contract which is subject to due diligence or planning approval"

don't want to run new services, such as water supply and transport, to new suburbs."

4 Look for corner block properties

Chivers suggests that a corner block would be perfect for first-time developers, as it could easily divide into two lots – each with its own street frontage and access. Yet not all corner blocks will be profitable.

"You'll need to check that services can be connected to the new lot cost-effectively. You may find major plumbing works are required, for example. Check with Energy Australia for electricity connection. If there's no electrical pole nearby then you may need to pay for a new pole. If the block has kerb and guttering only on one side, the council can request you complete the kerb as a condition of the subdivision consent," says Chivers.

5 Check out the structure of the property

If you're planning to subdivide within an existing building, structural integrity can be essential to keeping down construction costs. Mangioni suggests that a strategy that will reduce cost and time is to find a property with a sound exterior, allowing for interior renovations during the rainy season.

Getting permission

You'll need to lodge your development application (DA) with the local council, so it's essential to first

Case study

Jeff and Val Wareing are two of the unluckiest property investors that *Your Investment Property* has ever interviewed.

In 2003, the couple decided that investing in a subdivision property would be the key to funding their retirement. Having carefully researched the local property market, they picked an investment property in the Sydney suburb of North Turramurra. The property was perfect, as it was within the couple's budget, was on a large block of land and had enough space to subdivide.

However, on 19 December 2003 – the very same day that Jeff and Val exchanged contracts on their new investment property – a law was passed prohibiting dual occupancies in the bushfire evacuation zone that contained their new purchase. Only days earlier, the couple had gone to the Ku-ring-gai Council to find out how the evacuation zone rules could affect their plans, but not even the council had been informed of the proposed law changes.

Instead of ending up with a profitable subdivision development, which would have helped to pay off the mortgage on the couple's primary residence and top up their superannuation fund, Jeff and Val were lumbered with a house that offered no subdivision prospects whatsoever.

When Jeff and Val came to *Your Investment Property* for advice, our experts suggested that they try to minimise their losses and increase the property's value by gaining approval for commercial purposes, such as using the property as a childcare centre.

> **Checklist: Choosing the right property**
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> - ☐ What's in demand in the area?
> - ☐ Can you subdivide the property to accommodate this need?
> - ☐ Will developing the property provide an end product that sells for more than the development costs?
> - ☐ Will it be easy to connect utilities to the subdivided property?
> - ☐ Does the estate offer any quick ways to reduce debt, such as selling off part of the land to fund the subdivision of the main property?
> - ☐ Can you put in an offer subject to planning approval?
> - ☐ Does the property already offer a subdivided land or building held under one title?
> - ☐ Will the time it takes to develop the property add an unmanageable amount of interest to your loan?
> - ☐ Does the property already have DA approval?

establish whether your potential property will satisfy local subdivision requirements.

"Town planning is all about justification, so don't try to do too much in an inappropriate area. Contact a council town planner who'll tell you what the rules are, but also employ a private town planner who'll tell you what the exceptions to those rules are," suggests Eslick.

Chivers recommends getting a surveyor on board to help you secure a property that's likely to gain planning approval. "If you're researching a new area, the first place to start would be the local surveyor. They can give you advice on the subdivision and manage the process for you. They'll prepare your subdivision plan and should be able to indicate how long the council takes to process subdivisions."

Some vendors may have already gained DA approval in order to increase the value of their estate, meaning you could buy their property and avoid the application process. However, you'll need to make sure that it's worth the extra cost of buying a property with DA approval.

You'll also need to check that the DA's conditions allow you to build a subdivision that suits local housing demands. However, there are cases where you can alter the DA if you spot a development opportunity that's slightly beyond its remit.

"One client picked up a freestanding house with a DA to renovate, as it was originally on two blocks of land. He discovered that he was able to build a party wall to subdivide the house itself, getting two properties out of one, so we went back to the council and gained approval for a modification of the DA," says Mangioni.

Biding your time

Application processing times vary, as the local council will have a time limit for responding to DAs, but this can be extended for various reasons. Eslick puts the timeframe for a simple subdivision approval at between three and seven months, but Mangioni warns that it can sometimes take longer.

"Any approval should come in a 40-day period, but this generally doesn't happen because the council might have to give details of the application to the press and local community and assess the response. If the process isn't complete within 40 days, they can restart the process with another 40-day limit, so gaining approval can take years," says Mangioni.

There are various other time-consuming procedures that you'll need to follow before construction can begin in earnest:

- Check your DA consent for any special conditions the council may require, such as developer charges.
- Once all conditions have been met and any charges paid, you can apply for a Construction Certificate.
- After a Construction Certificate has been issued, you may register your subdivision with the Lands Titles Office.
- If you have a mortgage against the land, your lender will need to sign off on the subdivision before it can be registered.
- Once the lender has endorsed the plans, the plans can then be registered.

The effect that such delays can have on your debt could affect the size of the project that you choose to take on.

"I'd suggest smaller, quicker projects because the capitalising interest on your loan will start from day one – so you'll want to pay off that debt quickly," says Mangioni.

Limitations and risks

It's important to look out for environmental restrictions that could hamper your plans.

If the property is in a zone that's prone to flooding or bushfires, for example, the local council may have imposed costly special requirements for subdivisions in those areas – or may have even prohibited subdivision altogether. There may also be legal limitations that affect the viability of your sub-development.

"Have your solicitor check for restrictive covenants or easements that may affect the land. I've seen information in the sale contract indicating that 'services are available', but this doesn't mean that they're connected, so further enquiries should be made with the service providers," advises Chivers.

Even after you've satisfied all environmental and legal concerns, your DA could be scuppered by local residents' complaints, but Chivers believes that if you've done your homework, this shouldn't be a problem. "Generally, if the land you're subdividing meets zoning requirements and you comply to the subdivision Development Control Plan (DCP), you shouldn't have any issues with local residents."

Get creative

Given the hurdles that a property investor must jump over to gain planning approval, it pays to have a creative outlook when looking at potential subdivision properties.

Eslick suggests looking for a property that was historically divided into multiple lots, but is now held under one title. With building approval, you could remove the property and use the original lots without the need for a DA. "You could avoid the planning process altogether, avoiding infrastructure charges that could reach $30,000," he explains. ■