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before buying that next investment property

5 SMART TACTICS

to get a high valuation for your property

Jo Chiver's plan

> I would not recommend buying off the plan now. As I became more experienced, I realised the real profits were gained through the development process

Strategy:
Small development

I started investing in property over 12 years ago. The first strategy I used was to buy off-the-plan apartments. Back then, there was a shortage of new dwellings in Sydney, and developers were offering good purchase prices at a discount on the market value.

It was a risky strategy as you need to rely on buying well and on capital growth to occur while you wait to settle on the property, which can take 12 months or more. Luckily, for me, it worked well as the market during 2000–03 was moving forward.

As I settled one apartment purchase, I'd draw out equity to settle the next. I did this four times before coming to my senses and realising that the properties I was settling were all going to be negatively geared. I could not buy any more negative property as I was also in the process of growing a family, and cash flow was limited.

I would certainly not recommend buying off the plan as a strategy now. As I learnt more and became more experienced, I realised that the real profits were gained through the development process. This got me thinking about being a developer rather than buying from a developer.

I knew I couldn't afford to develop property in Sydney, so I looked to larger regional areas. I decided that the Hunter Region of NSW was a good area. There were large land sizes, affordable prices, cost-effective builders, and a strong local economy with good employment prospects.

After I finished my first development, a three-unit project, I had created a really good amount of equity. And having now developed over 70 properties, I know that small residential developments can be a great way for investors to boost their portfolios quickly.

How to make this strategy work

It's important to understand the costs involved in developing. At Property Bloom, we only look for relatively 'safe' development sites: land that we know should not cost more than estimated to develop. We base our build estimates on similar projects that we've recently completed. This gives us a good understanding of what the build costs should be.

But property development will always hold some unknowns, and you need to allow a contingency for this. We don't know exactly what all the costs will be until we are under construction.

It's also important to have a good understanding of what the end values of the dwellings may be. If you buy in areas where there are comparable sales references for the properties you will be building, this means your estimated end values should be fairly accurate.

A good development strategy for a first-time developer and investor wanting to boost their portfolio is a dual occupancy project, ie buying land on which you can build two dwellings.

Where we develop, there is usually the opportunity to create around $100,000 in equity through the development process within about 12 months. This does not take into consideration any capital growth that may also occur during the development period. That is a bonus if it occurs.

If you are developing when the market is moving up, then you have timed your development well. Even if the market is flat, you can manufacture some equity. The equity created is purely because you are the developer and you are adding value to the land not with one dwelling but with two.

Your step-by-step guide to dual occupancy development

1 Get finance pre-approval
It's important, before you start looking at development sites or any property, that you have a pre-approval from a lender in place. You can give your bank some example figures as a starting point, and once you've found the property you can then update the costs to ensure you can borrow that amount.

2 Understand the council requirements for dual occupancies in this area
Read the council's Local Environment Plan and Development Control Plan (DCP). This will let you know the size of land you'll need for your dual occupancy and what is permissible. If you don't understand them, make sure you use a good architect or builder who does, and they can help you determine if a site will suit this strategy.

3 Focus your attention on the area you want to develop in
Make sure the location is correctly zoned for dual occupancies. It's important to narrow down to one or two suburbs based on your research. This is a really important stage and you need to understand the area well. You'll soon become knowledgeable and know when you see a good dual occupancy site and if it is well priced.

4 Search for land that meets the dual occupancy criteria

- Size: Look at the frontage and know what the minimum width is for your dual occupancy. If it's a duplex site, you may need a minimum of 18–20m frontage. This will depend on the duplex design you want to use.
- Look at the depth and size to ensure the land is large enough to meet DCP requirements, including the outdoor private space. Check the land zoning allows for a dual occupancy and check the Planning Certificate to see if it is in a bushfire or flood zone.
- You can still develop in these areas but it will add to your build costs. Ensure the land is relatively flat with a slight slope to the street, unless there is a drainage easement at the back. Make sure there are services to the site: electricity, sewerage, gas.
- Have your builder look at the site. This is very important as the builder will look at the land from a different perspective.

5 Run a feasibility study
Once you believe the site meets the development requirements, run your feasibility study to ensure the project will be viable. You will need to know what other units/villas have sold for in the area and what is in demand, and to base your end estimated values on this.

What is the current rental return? This will give you the expected yield on completion. Most importantly, you will need to have a good understanding of the build costs.

» My biggest lesson came when I realised that the capital gain after holding one property for five years could have been created in one year with a dual occupancy development

The build costs will evolve over the design and planning process. Your builder can give you an estimate once a concept plan is available, but when the full Development Application (DA) plans and documentation are available the builder will then need to run a full tender.

You can cross-check this against your original estimate. If it's in line, lodge the DA; if it's not, go back to the design and look at areas where you can reduce costs. Once the plans are approved, the builder may run a second tender if council has asked for any changes. If not, then a last tender will be generated once the engineer's plans for the Construction Certificate (CC) are available.

6 Make an offer on the dual occupancy site

Ensure you request a long settlement period with permission to lodge a DA from the vendor. You can get all the design work and perhaps even have the DA and CC approved before you settle on the land; this will reduce your holding costs. Make sure you include the subdivision on your DA.

7 Get an unconditional construction loan

Once you have the DA and CC approvals, you can then go back to your lender to obtain your unconditional construction loan. As soon as this is in place, the builder can start.

8 Start construction

The build phase for a dual occupancy should be around three to four months or so, depending on weather.

9 Prepare your property for tenancy

Once the building works are completed, an Occupation Certificate will be issued. You can now have your villas tenanted.

10 Get a depreciation schedule

Don't forget to order a depreciation schedule. This is simple: just email the plans and builder's tender and any other cost details to your quantity surveyor.

11 Apply for a subdivision certificate

You can now apply for the subdivision certificate, and once the council issues this you can register the subdivision (after your lender has signed off on it). There is no need to register immediately if you are planning to hold and not refinance immediately as you may find the rates will be a little less for one title than two. But if you want to refinance and draw out the equity created, you should register the subdivision first and then apply for the refinance as the villas will be valued higher on their own title than 'in one line' of both on the same land title.

How it works in real life

Here's an example of a dual occupancy project we recently completed:

Land cost	$185,000
Stamp duty	0
($5,000 NSW New Home Grant* applied so the government contributes $5,000; this offsets the stamp duty cost)	
Legal fees	$1,500
Build cost, including subdivision costs, for two freestanding three-bedroom, two-bathroom villas	$420,000
Total cost	$606,500
Actual end valuations	$710,000 or $355,000 per villa
Equity created	$103,500
Gross yield	7.5%

** http://www.osr.nsw.gov.au/lib/doc/factsheets/ofs_nhg1.pdf*

Hold vs sell

Going back to my once negatively geared portfolio: as I held or sometimes clung on to these properties over the years, they have all become cash flow positive. That proves to me that holding property for the long term is important. I think that if you are going to go to the trouble of developing property, you may as well hold it. But the beauty of a dual occupancy is the flexibility it gives; you may like to hold one dwelling and sell the other.

My biggest lesson came after I started developing, when I realised that the capital gain after holding one of my properties for five years could have been created in just one year with a dual occupancy development for around the same cost.

My personal strategy is to only buy property that has strong development potential. You don't have to develop immediately, but be aware of what value you can add through renovation of an existing house, subdividing and building new dwellings.