Home Study Program Module 12
DIY Developer

Wealth Creation Dynamics

Learn how to **drastically** advance **your** financial future.

by Philip Sigglekow

Author of best seller 101 ways to get rich quicker.







Welcome

Module 12
DIY Developer

Welcome to module 12 of the Wealth Creation Home Dynamics Study Course - DIY Developer

This module is number 12 of 24.

Each module is presented in the same layout and contains exercises that you can do in your own time.

The benefits of participating in this Home Study Course are:-

- You progress at your own pace.
- You can study in the privacy of your own home.
- You can ask questions regarding the course at questions@apin.com.au

We hope you enjoy the Wealth Creation Home Study Course.

Best regards,
The team at APIN

Contents

Module 12 – DIY Developer

Introduction

How Savvy Investors are reaping rewards of property developing, and how you can do the same.

Welcome to this Special MODULE for property investors. It will explain step-by-step a unique investment strategy that regular investors like you are using to lock in capital gains and generate positive income, instant equity and superior capital gains.

- ☐ For this strategy to work you don't need huge amounts of equity.
- ☐ You don't need to have a massive income, a family income of 60,000+ per year is sufficient.
- ☐ And you don't need to be "hands on", you can have a full time job, live in another country, or make this a part time hobby.

In this "DIY – Developer" module, we'll look at specific facts, examples and to make the information easier to understand, we have broken it up into smaller parts.

Although the topics and examples in this DIY – Developer module give you a good overview of the "development" process, every individual's situation is different. For more information about how these strategies could apply to you, please contact one of our property specialists or property coaches.

We also recommend that you always seek qualified and licensed advice before making any investment decisions.

How You Can Become a Property Developer

How you can become "DIY property developer" and invest at "wholesale" prices, even if you know nothing about property development.

There are three types of property buyers – owner occupiers, investors and developers.

Owner occupiers: Owner occupiers buy at retail prices. Their primary motivation is lifestyle, although they may certainly hope for a capital gain as well, they do little research and buy heavily on emotion.

Investors: Their primary motivation for buying is profit. They buy and wait for the property to go up in value. This is a tried and proven strategy, but it can be made to work much faster, using systems used by leading experts.

Developers: Buy a site, develop and sell it for a profit. This is also a tried and proven strategy, and if timed correctly can make huge profits.

The DIY developer allows you to potentially turn a significant profit in the first year by developing a site and capturing the equity. When you want some extra income you can just sell and move onto the next project.

Developing property allows you to take advantage of wholesale margins to lock in profits, but it also requires time and patience.

Many people who may be able to become developers either lack the expertise or are too "time poor" to do it themselves. That is why it is important to study this module and seek advice before you get started.

Why develop at all?

Well, quite simply because you can make the developers profit. So instead of paying retail you can make instant equity by investing a little time and effort, and benefiting by up to 20-30% additional profit.

5 Fundamentals

1. You must apply massive due diligence and research
2. You must know the top 4 best streets in the area
3. You must be in close proximity to schools, shops and transportation
4. You must know what is appealing in that area for developing
5. You must know the end value or target you want to achieve

Case Study #1 "Kathryn and Greg"

Kathryn and Greg live in Sydney and have 2 young children. They both work and live busy lives. They could not find a home that they were happy to buy and live in without massive renovations and end up spending more than what the property is worth.

They studied and researched being a DIY Developer and were excited by the prospect of developing their own home. They sold their existing home in Ryde and by applying what they had learnt they found and secured a beautiful lot in an up market area in Epping East within walking distance to the train station.

Believe it or not "without the long story" they found a "vacant lot" that other people had passed by unnoticed and then negotiated the purchase direct with the owner, by-passing the real estate agent.

They secured the land with a $65,000 discount off the asking price using some negotiation techniques.

After going through the builders process system they engaged a suitable project builder to construct a large single storey, 4 bedroom, air-conditioned, double garage, alarm, granite kitchen etc... home with all the bells and whistles they dreamed of having.

They even negotiated over $12,000.00 of extras for free from the builder, who was keen to get the job as they all are.

Let's look at the maths in a simplified table.

Land purchase	$325,000.00
House construction	$230,000.00
Landscaping	$ 40,000.00
Total	**$595,000.00**
Agent Valuation	$795,000.00
Instant Equity	$200,000.00

Project time start to finish was 11 months and 5 days. So for a little time and effort they made a $200,000.00 profit (extra equity).

Why don't other people do it?

- ☐ They think it's too hard.
- ☐ Fear.
- ☐ Don't understand the correct process.
- ☐ They lack vision of the end product.
- ☐ They understand how but don't know how to.

Why they were successful?

- ☐ Proper research was applied.
- ☐ They picked a good suburb with good growth.
- ☐ They negotiated well on the land purchase.
- ☐ They negotiated extras with the builder for free.
- ☐ They knew what the market in that area demanded.

Can anybody do it?

- ☐ Yes
- ☐ Only if you use the correct process and take time to research and analyse
- ☐ As long as you have equity or a regular income history
- ☐ If you are well informed with the development process
- ☐ If you are willing to learn and not let emotions drive your decisions

Exercise

What are the five fundamentals of DIY Developing?

Why do you think some people don't become DIY Developers?

High Performance Investment Property

In Part 1 you were introduced to what is likely a new and innovative concept to you – the idea of becoming a "DIY developer".

Investors are already using this strategy to build a portfolio of properties. Others are using it to generate additional passive income without working any harder.

For now we'll talk about using this strategy to build a portfolio of properties.

One of the fundamentals of building your portfolio faster is learning how to acquire high performance properties that are cheap to own, cash flow positive and growing in value.

The first thing you need to understand is, "what constitutes a high performance investment property"?

This is critically important. If you don't have this clearly defined, you may not look in the right places. It's easy to buy an investment property, but it is critical that you find the right property if you're going to maximise your returns, and win in the property game because many fail due to any number of factors.

For the "growth" strategy that we're talking about here, you are looking for two key ingredients:

1. High capital growth found by proper research
2. Low net cost of ownership by negotiating on the purchase and with the builder

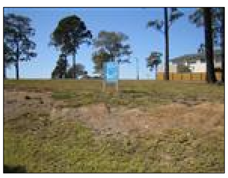
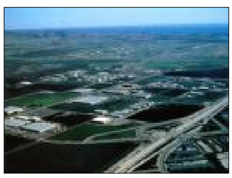
In other words, you want to get maximum increase in value over time while investing as little as possible of your own money during the period you own it.

For example, if you own a $400,000.00 property that produces 10% capital growth each year ($40,00.00), and it only costs you 1% to own each year ($4,000.00), then you should be pretty happy with yourself. Turning $4,000.00 in any 12 month period sounds extraordinary, but this is not unrealistic for a high-performance property.

It is important to point out here that there are many properties performing below and above 10% pa. This is where research is highly important. Point Piper in Sydney is on of the best performing suburbs over time and while some areas are down I can guarantee you that others are booming ahead. Don't be fooled by people who say the property market has crashed, this is said by misinformed people who want to keep you at their level.

Let's explore the first element of high capital growth.

Finding a high capital growth property

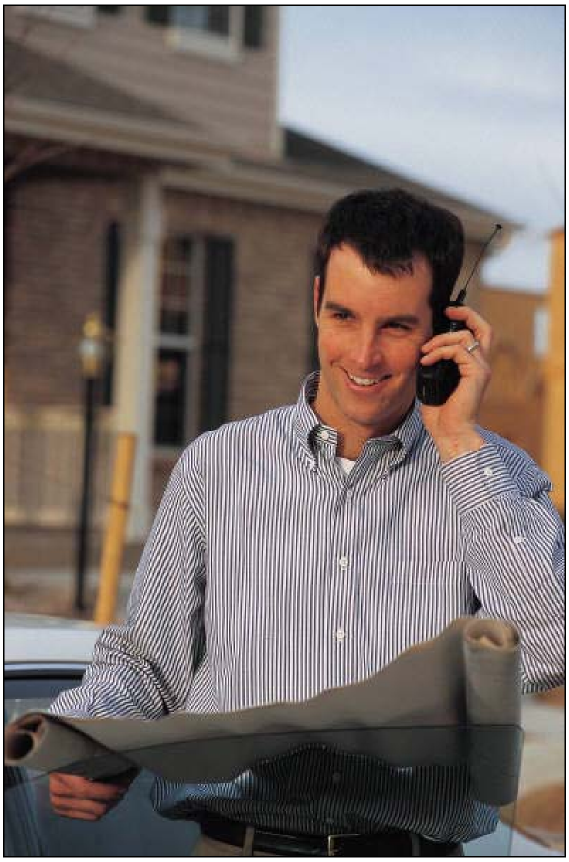

A successful property development will be in high demand and short supply – that's what drives the prices up. It will also be in an area with superior infrastructure.

To get maximum results, the property must be attractive to a large number of buyers and have some constraint on supply, which means there is a limited number or more purchasers than stock.

Both sides of the equation are important. If a property type is attractive to a large market (high demand) but there is no constraint on supply then the capital growth prospects are minimised.

Broad hectare subdivision of vacant land is a great example – there may be a high level of buyer demand, but if the developer simply manufactures more blocks of land and meets demand, there will be minimal or no increase in price. This is why when developing a whole new suburb takes such a long time to release the true value.

Applying this fundamental to property investing, it's important that we invest only in well researched areas.



Who Are Emotional Buyers

'Emotional Buyers' are the people who will fall in love with your property and pay handsomely for the privilege of owning it and will pay above market rents and sign 5 year rental guarantees to live there, yes it does and can happen.

In the current market they are:

- ☐ Professionals with money
- ☐ Empty Nesters
- ☐ Generation X'ers
- ☐ People renting interstate on contracts

Professionals with Money

Professionals with money have the ability to borrow large sums of money to purchase superior quality properties in upper market suburbs. Generally these people prefer to live within 10 km of CBD's with access to good transport and restaurants.

Knowing what to build for these people is critical to your success as a DIY developer. If you choose to renovate or develop you could choose a project builder over a boutique builder. The cost savings are enormous, however you must use superior interior products such as vitrified or timber floors, marble and granite in the kitchen and sophisticated modern bathrooms.

Similarly, professionals who don't buy will pay big dollars to rent the right type of property.

"Empty Nesters"

"Empty Nesters" are a sub-group of the "baby boomers".

They are around 50 years old with kids who've finally left home. They earn good money and live in nice houses in middle suburbia – houses that are much too big for their current needs, on large allotments that take much too much effort to maintain.

They have another 10-15 working years to go. They're at the stage in life where kids have gone and they feel they need to get back into life again. They don't enjoy cleaning a big house, maintaining a big yard, suffering the daily commuting nightmare or paying a small fortune in up-keep and maintenance.

They are looking for housing that....

- ☐ Is nearer to work and amenities (theatres, restaurants, etc)
- ☐ Is easy care for but will also cater for visiting friends and family
- ☐ Can conveniently and safely accommodate two cars
- ☐ Has quality fixtures and fittings
- ☐ Has a low-maintenance yard

And most importantly – they're prepared to pay for it!

"Generation X"

Generation X'ers are the ones that have been keeping the "Empty Nesters" poor for so long.

They're aged 25-38 and are highly educated. They enjoy highly paid professional positions and are rebounding from the poverty of student life. Contrary to the hopes of their parents, Generations X'ers aren't interested in starting families early. They're into living life to the full – after the working week, there are theatres, restaurants, and entertaining.

They want convenience. Proximity to work and amenities are paramount. They don't need a big house, but one that has a "home office" is an advantage. Providing for two-car accommodation is important, and of course the property must be easy to maintain.

People renting interstate on contracts

These people are similar to the professionals but in many cases have families to consider when relocating. They look for high quality 4 bedroom homes with large land for the children, close to schools, shops and bus or train stations.

They are not so concerned about high tech finishes, however they do require all the 'mod cons' including air conditioning, double garaging and internal laundries and good kitchen appliances.

Buying in an area with a constraint on "Supply"

Your next challenge is to purchase your property in an area where there will be a constraint on supply. In reality, this isn't a difficult problem at all.

All groups mentioned are looking for much the same thing. They want to be conveniently close to the central business district and all the infrastructure and services that go with it. So that's where you must buy your investment property – a high quality, low maintenance detached house located in a "nice" inner or middle ring suburb.

In most cities the preferred radius is about 10 km from the CBD for maximum results. In this zone you harness the optimum proximity advantage to infrastructure and services, and maximise supply constraints.

☐ These ring suburbs are old and established, so almost every block has a house on it. There is very little vacant land, however they do exist.
☐ Much of this area is subject to town planning constraints such that most houses cannot be demolished – which means developers can't knock down houses to "manufacture" vacant land, if they are heritage listed or contribute to the history in the area.

For a project to be successful it has to enjoy high capital growth and it also has to be cheap to own. We are looking for bargains that most people don't see.

That's where the problem lies – in the zone where our target market wants to buy, most of the houses are old and you certainly don't want one of those as an investment, because the maintenance issues could be too great. You need to identify what types of houses are ripe for developing – we call this the "ugly ducklings" and most councils actually want them transformed or

removed to beautify the area. Let me tell you "there are hundreds" to choose from all over Australia when you know how to "and" what to look for.

What you want is a NEW property so you can minimise outlays on capital improvements and repairs while you benefit from maximum rental income and tax savings.

The existing properties in the zone where your target market want to buy aren't quite right. How do you solve this one? That's where the "development" part comes in.

Making Your Strategy Work

We know what our key markets want to buy. We know where they want to buy it. Now we have to work out a way to deliver it to them to make the whole thing work.

There are larger blocks of land within the target zone where the houses can either be relocated to fit on half the original block, or demolished to make way for two new houses.

This strategy is consistently successful

Without any complicated explanations let's look at some of the key strategies:

1. Choose 3 suburbs you want to become an expert in
2. Photocopy a street map of each suburb
3. Break each suburb up into 8-10 zones
4. Make a list of all the streets in each zone
5. Ask 5 real estate agents to name the top 4 best streets in each suburb
6. The best results are when you only buy in those streets, however there are bargains outside these streets as well.
7. Walk every street – yes walk not drive – make a list of opportunities following the DIY strategies
8. Send out your first letter
9. Send out your second letter
10. Send out your third letter
11. Negotiate the best price
12. Renovate or detonate!
13. Start the DIY builder process

Who Can Undertake this Type of Investment?

Because the "DIY Developer" strategy is fairly new to new people, some investors think that it's only suitable for property experts. The fact is, that this strategy is well within reach of the ordinary investor and any mum or dad investor.

If you have a family income of around $60,000.00 and you have at least $200,000.00 equity, then it's very likely you could engage this strategy and massively enhance your financial future. You could also consider joining with a friend or family member to get started.

The strange thing is that most people don't do it because:

1. They don't know about the strategy and thinks it's difficult
2. They are scared of failing and losing all their money when in fact it can be safe as houses

LEVEL OF INVESTMENT

One of the issues you need to decide when choosing a property development strategy is the level of investment that you're comfortable with.

☐ Are you looking to do a simple detached house or duplex site for say $50,000.00 to $100,000.00 profit?
☐ Or are you looking to undertake a project of four or five townhouses at $1,000,000.00 and pick up a 20-30% profit?

It depends on your financial position, your objectives and your psychological comfort level. No single choice is right or wrong. If you're just starting out, then start small. Play at a level where you can sleep at night. There is plenty of time to make money so don't rush.

The trick is to balance risk against return. The higher the potential return, the higher the risk. One of the major risks with property development is in the "sell-ability" of the finished product. That is, when you have the maximum amount of money on the table and/or when you can least tolerate delays. The other two critical factors are timing and luck.

Developing your project so it is attractive to the larger and more stable "owner occupier" market will provide a much lower risk environment than relying on being able to sell it to the more fickle investor market.

Exercise

A successful property development will be in ___________________________

and _____________________________.

What are Empty Nesters looking for in a house?

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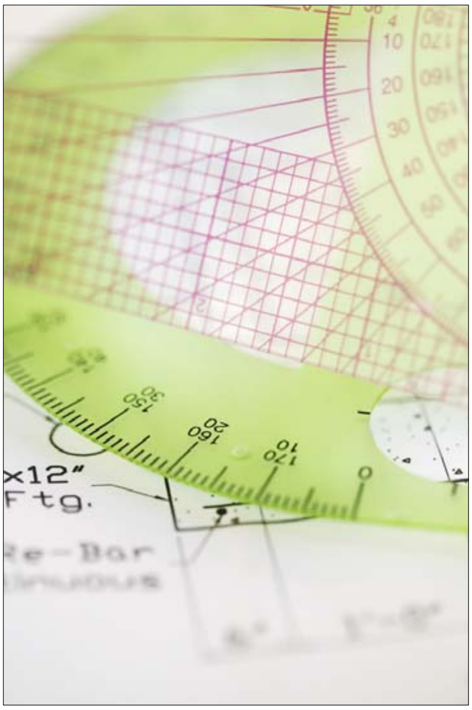
the property development process 3

Step by Step

Now in Part 3, we'll walk through the entire development process, step-by-step. This scenario works whether you engage someone to manage your project because you don't have the experience, time or inclination to do it all yourself, or the steps would be the same if you decided to do it yourself.

The Property Development Process

1. Determine your objective and strategy (target)
2. Establish your funding
3. Establish relationships with selling agents
4. Develop feasibility model
5. Research and assess prospective site(s)
6. Secure and negotiate the preferred site
7. Conduct due diligence
8. Secure presales, funding and other alliances
9. Obtain Development Approval
10. Conduct Operational Works
11. Construction
12. Sealing and Titles (finishing off the project)
13. Sales and settlement
14. Looking for the next opportunity



STEP 1: DETERMINING YOUR OBJECTIVE AND STRATEGY

This is something many people neglect to do. They buy a site because "it's a good site" even though it may not fit with their objective.

Careful planning at this stage can dictate the success or failure of a project.

For example, if you're looking to develop and sell an entire project, you'd probably lean toward the developing smaller sized units so you get more units to sell.

On the other hand, if you're considering retaining a part of the project, then you would probably forego a very high up-front yield and look for stronger capital growth prospects. This is done by careful selection of location and designing the units to be m ore attractive to owner occupiers – larger dwellings with three bedrooms plus outdoor living space etc...

STEP 2: ESTABLISH YOUR FUNDING

You not only have to get the funding in the first place, but it has to be at the right price and sufficiently flexible to do what you need it to do.

There are two types of mainstream funding: consumer finance (cheap rates but not developer friendly) and developer finance (developer friendly but at higher rates and lower equity ratios).

Once you've established your objective and strategy, you can work with a finance broker to match your funding to requirements.

There are some other clever ways of controlling a site while you obtain approvals with the use of "options", but that's beyond the scope of this module.

STEP 3: ESTABLISH RELATIONSHIPS WITH SELLING AGENTS

This is a tough one because most estate agents don't know much about property development. You need to find the ones that do because you need them on side to introduce sites to you. The really goods sites never reach the open market.

You need to find agents who can recognise a prospective site, and then establish a rapport so you are included in the "first ring around" once they've listed the site.

To be considered you must demonstrate you are able to buy (beforehand) and most importantly – be able to assess the site and make a decision quickly.

STEP 4: DEVELOP A FEASIBILITY MODEL

This is all about making quick assessments and decisions. (There are commercially available software packages available. One you may consider is "Feastudy" – it's Australian and has been around for a number of years).

You need a sufficiently accurate preliminary feasibility ("prelim feaso"), without spending too much time or money. You'll need cost estimates for:

- ☐ Acquisition outlays
- ☐ Development Approval
- ☐ Operational Works
- ☐ Construction
- ☐ Sealing & Titles
- ☐ Selling Costs

You will also require the services of a:

- ☐ Solicitor
- ☐ Town planning consultant
- ☐ Architect or draftsperson
- ☐ Engineers (civil, structural, electrical, audio, traffic etc…)
- ☐ Builder (and possibly a Quantity Surveyor)
- ☐ Surveyor

Your consultants will help you assess sites as much as they can, but be careful you don't burn the relationship by leaning too heavily on their generosity. Make sure you are very familiar with your software, remember the old "garbage in/garbage out" rule.

STEP 5: RESEARCH AND ASSESS PROSPECTIVE SITE(S)

Now it's time to get out there and inspect the sites you hear about. You need a standard "procedure" for assessing a site.

Use checklists which take into account all its characteristics (details of the sewerage lines, water services, electrical, phone etc.) Evaluate the Gross Floor Area and estimate construction and resales.

All that data feeds back into your preliminary feasibility so you can decide how much you can pay for it.

STEP 6: SECURE AND NEGOTIATE THE PREFERRED SITE

Often you need to move quickly on this one.

It's important to find out what is important to the seller. That way you can customise your offer to make it most attractive – you might pay a higher price for the site if you can have a long settlement period. Or if the seller needs funds quickly you might look for a quick settlement at a lower price.

You should also ensure that there is some flexibility built into the contract so you can escape if your due diligence doesn't support going ahead.

STEP 7: CONDUCT DUE DILIGENCE

It's now time to crunch the numbers again. You need to get serious and pay for your consultants to assess the site and provide you written reports detailing approximate costs and time line estimates.

You may not be able to get your construction priced yet, given that you may not have a design at this stage, but you can calculate on a cost per metre rate and work in with your town planning consultant.

Make sure you get written resale appraisals and obtain reports of recent sales evidence of similar properties.

STEP 8: SECURE PRESALES, FUNDING AND OTHER ALLIANCES

Your funding arrangements and the size of the project will dictate whether you need to pre-sell some of the project or not.

For small lot developments and modest townhouse developments this is usually not required.

STEP 9: OBTAIN APPROVAL

Once your development application is lodged, it's over to the local authority to do their thing. You shouldn't hold your breath because it normally takes about five months.

There are likely to be local residents who will make submissions objecting your proposals, and these interest groups may have a right to appeal the Development Approval when it does come out. Appeal periods potentially add another two months to getting the final blessing for your project.

STEP 10: CONDUCT OPERATIONS WORKS

Once you have Development Approval (DA) you can embark on the operational works phase. This involves upgrading services to the site as detailed in your DA conditions. There are a number of phases:

- ☐ Design phase – where your consultants will design service upgrade solutions required by the DA,
- ☐ Approvals phase – where the local authority (council, energy supplier, communication supplier etc) will assess and approve the proposed solutions,
- ☐ Quotations phase – where you find out how much the service upgrades are going to cost,
- ☐ Works phase – where the service upgrade work is undertaken, certified and approved.

As you can see, there are a number of fairly involved steps here.

STEP 11: CONSTRUCTION

Building work can often begin whilst the operational works phase is being performed. Generally your building contract will provide for progress payments as key stages of construction are reached.

Make sure the quality of workmanship is acceptable as the project is coming together. You may even engage an external advisor (architect or building inspector) to review the project as each stage is reached.

STEP 12: SEALING & TITLES

With the exception of subdivisions, the sealing and titles process can be commenced when the site reaches “enclosed” stage. You will need to work with your:

- ☐ Solicitor or Conveyancer – for body corporate documentation and titles work,
- ☐ Surveyor – for registered plan and sealing,
- ☐ Lender – to provide a general consent and attend the re-issuing of titles.

STEP 13: SALES AND SETTLEMENT

Broadly speaking, there are two options here.

1. In the case of larger developments, the plan is often to sell “off the plan”. For this you normally have to work in with an “investment marketing” group, or real estate agent.

2. In the case of small lot you’ll either let out the property to tenants or put it on the market.

STEP 14: LOOKING FOR THE NEXT OPPORTUNITY

You have survived your first development project. Now you have to figure out what to do with your profits. Start the process all over again and go and make more money!

You – A successful Property Developer

As you can see, the entire process of developing a property is fairly complicated. It takes a combination of experience, skill, money and time to get it right and reliably achieve profitable results.

If you eventually decide that being a DIY Developer isn't for you, there is no harm done. But if you find that this opportunity matches your investment objectives then you could have a very exciting and profitable year ahead of you.

The only catch is that supply is limited. Given that appropriate sites are getting harder and harder to find, only around two suitable sites come up each month. So if there is a chance that the DIY Developer might be for you, do your research, study this module over and over and go for it!!

Exercise

What's the first step you should do in the Property Development Process?

Why is this first step so important?

final reflections

What key points have you learnt from this module?

Are you ready to become a DIY Developer?

You are ready for the next module.