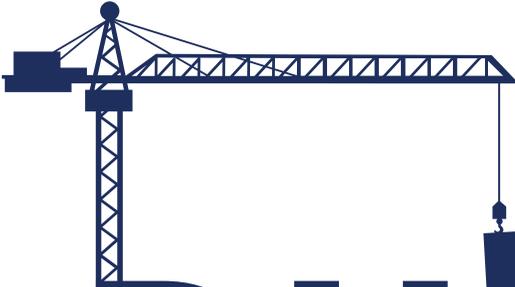


*“A must read if you want to learn how to develop property
and still keep your shirt, your family and your friends”*

Rod Mahoney, Corporate Executive, PDW Masterclass Participant



BUILD

HOW TO CREATE PRIVATE WEALTH AS
A SUCCESSFUL **PROPERTY DEVELOPER**



JIM CASTAGNET

RETHINK PRESS

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This book is dedicated
to Marie-Louise Claudine Castagnet.
Your kindness, love, dedication and
sacrifices will never be forgotten.
You will always be a queen to me.

INTRODUCTION

Property development is the most lucrative business in the world. It is this very fact that draws many to try their hand at it. It is not for the faint-hearted, however, or for those who are ill-prepared or uneducated in this particular field. So let me congratulate you for taking the first step in your journey by reading this book.

A myriad disciplines contribute to the knowledge base of the successful property developer. You will need to know about architecture, engineering, public relations, industrial relations, property finance, property law, construction, accountancy, general management, sales and marketing, communications, town planning, valuation, quantity surveying and land surveying, to name just a few.

So where do you find all this information? Practically, of course, you cannot go to university to obtain a degree in each of these disciplines.

In this book I would like to share with you how I made my transition from senior executive in the corporate world of telecommunications to full-time property developer. The journey has not been an easy one, and you certainly

do not have to travel the same rocky road that I took in order to become successful.

One of the biggest obstacles I struck when starting out back in 1998 (and little has changed in this regard since, I believe) was the problem of finding quality advice and information from experienced developers who knew what they were talking about. They were either too busy, bound by confidentiality agreements, or just unwilling to share their hard-earned and costly lessons with potential competitors. It's the 'secret sauce' syndrome. It really can be the most guarded of industries when it comes to getting practical advice. Which is one of my reasons for writing this book.

When I was doing my research, I found only three books, two by the same author, that more or less addressed property development directly. The authors were not developers, though, but rather had worked as consultants on development projects. Being a development consultant to the actual developer is like being a chef in a restaurant owned by someone else. The risk profile is vastly different. For the developer, the decision-making process at the holistic level is much more demanding. Only the business owner bears the brunt of all the risks of that business and, more importantly, has the power to make the business succeed or fail.

This book presents invaluable knowledge and a step-by-step guide to orchestrating all the necessary elements that make up property development. I will introduce you to my own Property Development Process through

a framework that takes you through the seven phases of a property development project.

The book provides a practical guide and a blueprint for any development project you are likely to undertake. Like the DNA from which an infinite variety of life forms are created, once mastered, the information and knowledge you accrue can be applied repeatedly to creating wealth through property development. I promise you an exciting journey, so enjoy the ride.

MY BACKGROUND

I arrived in Australia at the age of eleven through the migrant gateway of Sydney's inner western suburbs. My father, who had been a primary school teacher in Mauritius all his life, had secured a job at the De La Salle Brothers Catholic School in Sydney. It was my first experience of Australian culture.

I remember my very first day at high school. The teacher had asked, 'And what would you like to do when you grow up?' The kids rattled off the usual suspects: fish and chip shop owner, builder, policeman, accountant... No one, as I recall, volunteered 'property development' as an ambition! Indeed, right through school and university, and my eighteen years in the corporate world, I had absolutely no clue of the existence of the property development industry.

Given that this is not just any industry, but one that affects each and every one of us in some way, and has the power to drive the whole Australian economy (although not necessarily in a positive direction), it is surprising that the average person – that's 99.9% of us – knows nothing about property development, let alone its career potential.

Property development is the driving force behind countless businesses, and in particular our retail industry. Think about the run-on effects of building a block of apartments. You will have provided employment for thirty or more consultants and public servants. At the same time, retailers of building materials, furniture and fittings such as carpets, tiles, taps, paint, curtains, beds, dining tables and chairs, kitchens and bathrooms, electrical goods, electronic devices and many other products will benefit either directly or indirectly from your venture.

I remember working on a seven-apartment development in Bellevue Hill in Sydney's Eastern Suburbs. We used to have our weekly site meetings at Birriga's Café at the end of the street. The builders and subbies would always buy their morning tea and lunches there too. We even held Melbourne Cup lunches there. To the delight of the café owner, who became a good friend, the development went on for much longer than expected. When we completed the project and moved on, the café suffered a severe downturn in business and almost went under. That was fifteen years ago, and I am happy to report that Birriga's Café is still going strong.

What became apparent to me, though, was the importance of my development project to the community as a whole. In fact, what I do now when assessing a property development venture is to make a list of all the stakeholders and then learn who they are and how they might be affected, positively or negatively, by my venture. This

exercise is vital to establishing my approach to my development and, indeed, to evaluating the project's potential for success.

Chapter 1

PROPERTY DEVELOPMENT DEFINED



What is property development?

The *Collins English Dictionary* defines property development as ‘the business of buying land and buildings and then making improvements to them so that their selling price exceeds the price paid for them’. Sounds simple enough. So why do so many get it so wrong? I hope not only to solve that mystery in this book, but also to show you how to do it successfully time after time.

Let's begin by identifying the most common mistakes that property developers make.

The Seven Deadly Mistakes in property developing

Property developers are by nature entrepreneurs and risk takers. They are enthusiastic and passionate individuals who are generally successful at what they do. However, those very characteristics that make them successful can often cause them to make unnecessary and costly mistakes. During the eighteen years I have been teaching and practising property development, I have found these to be the seven most common mistakes that property developers are prone to in their haste to make things happen.

Mistake no. 1: lack of due diligence. A thorough due diligence process is an absolute must if you are to reduce your risks as a property developer. The scope of this process will depend on the complexity of your particular project. Rookie developers will often do the bare minimum of what is necessary. They will commit to purchase on the word of an often unqualified third party. If you're unsure of what is needed, I recommend you commission a qualified consultant to do this work for you. It will help you to avoid costly mistakes and hidden pitfalls, and could save you thousands.

Mistake no 2: massaging the financial feasibility. The feasibility analysis is the most critical element of your due

diligence. If you get this wrong, you will probably end up overpaying for the land or walking away from a perfectly viable project. The Feasibility underlies everything that you do. It will allow you to determine the residual value of land, and therefore how much to pay (which ideally should be below the residual value).

A problem I see time and time again is that developers tend to overestimate the sales of their projects while underestimating the construction costs. It is too easy to play with the figures to support the outcome you want rather than clearly reflect the reality. What often happens then is that the developer goes ahead and purchases the site, and spends loads of money on getting development approval (DA), only to find that the project does not stack up, so the bank won't fund it. Which is why there are so many sites on the market that are simply not viable.

Mistake no. 3: underestimating the power of neighbours. Neighbours need to be on your list of stakeholders who are affected by your development. Very often lots of anxiety is created unnecessarily because the developer has surprised the neighbours with the proposed development, having failed to communicate their intentions to these interested parties prior to lodging the DA application. Remember that the fewer objections received by the council, the easier it will be to get your DA. Neighbours are also constituents who vote for their local councillors, so their concerns do carry weight when

the council is considering your application. They can hold up your application interminably. Worse still, they can force you to take the matter to the Land and Environment Court, where you will face even more delays and court costs.

Mistake no. 4: selecting the wrong builder. There is nothing more heartbreaking than having the builder go broke halfway through your project. It is very costly to replace a builder and your budget may not be sufficient to do so without further injection of funds. Builder selection is a critical part of the property development process, and too often a builder is selected based on a recommendation from a mate or on the cheapest price. Depending on the size of your project, it is wise to use the services of a quantity surveyor, who will be able to provide cost estimates for your project when assessing the builder's tender. They can also advise on the performance of particular builders as they are often processing monthly progress payments on the bank's behalf. They know the builders who perform on time and on budget.

Mistake no. 5: shoddy legal documentation. This is an issue that is often overlooked by even the most experienced developers. Indeed I have been guilty of getting this wrong myself, and it has been very costly. There are obvious reasons to ensure that your legals – by which I mean option agreements, joint ventures, non-disclosure agreements, building contracts, pre-lease agreements and a host of other formal structures and provisions,

depending on your situation – are up to scratch. These include minimising your liabilities and protecting your assets to ensure you get to keep your profits at the end. If you don't engage a qualified property development solicitor and accountant who can advise in this regard, you risk being exposed before, during and/or after the completion of your project.

Mistake no. 6: not selecting the right consultant. It's worth reminding yourself of the truism that 'if you pay peanuts, you get monkeys'. To succeed in property development you need to surround yourself with the right team, including the right architect, solicitor, accountant, town planner and quantity surveyor. Too often developers opt for the cheapest consultants, and inevitably this costs them more in the long run. Mistakes result in variations and an inferior end product. At the end of the day, the developers don't achieve the *highest and best use*, which of course results in less profit – or even a loss.

Mistake no. 7: buying the wrong site. This is the most common mistake I see developers make. There can be many explanations for this, including lack of due diligence and incorrect or incomplete (back of the envelope) feasibility studies. Often it comes down to a combination of lack of knowledge and understanding of the property development process in relation to buildability issues, funding, planning framework and/or the target market. The risk with property development most often lies not in the project itself but in the property developer. Self-education

in property development is a critical part of a developer's due diligence.

So how do we get it right?

The key word in the above Collins Dictionary's description of property development is *business*. I have come to realise that property development is not about undertaking a one-off project. It is a business that can involve one or multiple projects, but like any business it needs a CEO or managing director. Someone who is in charge, but more importantly someone who is responsible and accountable for the success of the business. And that person is *you*. If you are to succeed in property development, you must empower yourself and make happen.

By definition, if you're going to start a business, you will need the necessary skills to manage *the business*, and not just a construction project. Indeed, many newcomers to the industry are pleasantly surprised to learn that they already possess a number of the skills they will need to succeed as a property developer. They just need to learn how to apply those skills to the new task.

Why do property development?

Property development is truly one of the most rewarding industries in the world, and one of the most effective pathways to creating lasting wealth. Some 75% of the top 200 BRW rich-listers hold their wealth in property.

When practising property development, you are obligated to make substantial profits on each project. Indeed, if you cannot do so you will not be able to secure the funding required to proceed with the project.

A word of caution, however. Although if you get it right the money will flow as it is but a measure of a job well done, I wouldn't focus solely on making money. Rather, concentrate on honing the skills required to deliver each phase of your development, being aware and respectful of all stakeholders and sensitive to the environment.

Making a good profit, or even a super profit, is important. I believe your true reward, though, is the sense of fulfilment and satisfaction you will enjoy when you complete this challenging task successfully. What's more, you will earn the respect of your peers and the community when you make positive contributions to society and to the economy.

Does it take a 'special breed' to become a successful property developer?

I once spent three years in the Land and Environment Court doing battle with the local council over a storm-water easement through the neighbours' property (which I will discuss in more detail later in this book). I remember asking my solicitor, who was an expert on the Court and very knowledgeable about planning matters, if he had ever considered taking up property development himself.

His answer was a respectful, 'No, it's not for me. It takes a special breed of person to do property development.' I will leave it to you to make up your own mind on that as you work through this book and your own projects. In a later chapter we look more closely at the qualities and attributes needed and why *you* hold the key to success.

Suffice to say here that a successful developer commands a lot of respect, and personally I have found it to be a profoundly fulfilling profession on many levels. As a business leader, I believe I can contribute to society and be a positive influence for the community. I provide employment and serve as an educator while creating a legacy for my family. Property development for me is at the exciting 'pointy end' of entrepreneurship.

The property developer is a visionary who creates development opportunities, orchestrates processes and manages consultants to turn that vision into reality. Ten developers will look at one site and come up with ten different solutions for how to use it. There is no right or wrong answer, except of course if a proposal cannot be approved by the council. Each solution will have a different outcome and, importantly, a different profit (and therefore risk) margin.

The best developer strives to achieve *the highest and best use* for a site. Often, the most successful developer is the one who sees opportunity where no one else does, and who will therefore achieve a better outcome than anyone else.

Is it for me?

If you're interested in fast-tracking your wealth creation and looking to create a legacy for your retirement and your family, then consider property development as one of the strategies, if not *the* strategy for achieving your goals.

Now, take this quick quiz:

- Are you a professional or corporate executive, earning a salary and perhaps working up to sixty hours a week?
- Would you like to free up your time and create wealth at the same time so you can control how long and when you work?
- Would you like to start making huge profits, without leaving your current job?
- Are you a small business owner wishing to create another more lucrative income stream?
- Are you a property investor ready to embrace a more proactive strategy to speed up your wealth creation?
- Would you like to ensure that you are creating profits and wealth while exposing your business to minimum manageable risk so your and/or your family's assets are protected?
- Would you like to learn the tightly guarded strategies that successful developers and entrepreneurs use?

- Would you like to enter the property development industry using little or none of your own money?

If you have answered yes to most of the questions, then you are probably ready to take your next step to becoming wealthy through property development.

Chapter 2

THE PROPERTY DEVELOPMENT CAKE



The ingredients: elements of property development

Over many years of practising and teaching property development I have determined the main elements that make up each project. This framework has greatly facilitated the learning process for my students. Identifying and working through each of these eight elements systematically will allow you to attack the development process in a clear and methodical way. It will also make the whole

process of communicating with and managing your team much easier.

Consider these your project milestones:

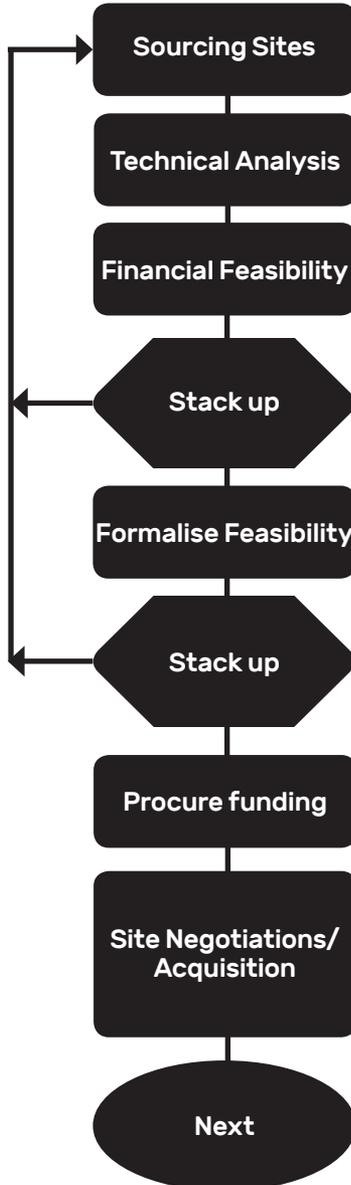
- Technical and financial feasibility analyses
- Legal structures for projects
- Property development finance
- Site acquisition/negotiations
- Development approval (DA) application process
- Tendering/construction
- Marketing and sales
- Exit strategies.

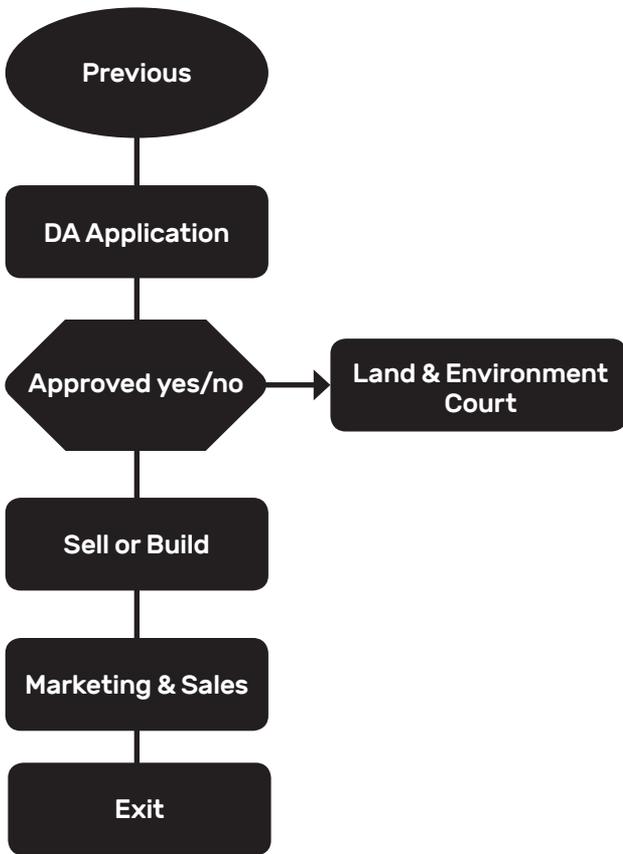
I have incorporated these eight elements into my Property Development Process

How to make the cake

The following flow chart simplifies the complex process by breaking it down into bite-size pieces. More importantly, it shows how tackling each phase of the process depends on you having completed the one before, like climbing a mountain one step at a time. Any attempt to cut corners or circumvent any of the steps in the process will inevitably come back to bite you sooner or later. Self-discipline in this regard is paramount if you're to succeed.

The Property Development Process





In the following chapters we'll dissect each of the seven phases in the Property Development Process so you can learn to complete each phase successfully. I should point out at this stage that you may not want to complete the whole of the process for each site. There are many potential exit points you might choose to make use of as you work through the process. And completing a particular part of the process can become in itself a niche

business that you can undertake to generate relatively quick and often substantial cash flow to start your own development business.

Mastering the Site Sourcing and Acquisition steps in the flow chart will enable you to source and create outstanding development sites and on-sell them to other property developers who are geared to take on the construction phase of the process. This 'early harvest' will allow you to start your property development business quickly by generating cash flow without having to invest lots of money.



The Author

Jim has over 20 years' experience successfully developing residential and mixed-use residential property. After spending two years as a guest presenter at University of Western Sydney's Business School's property course, Jim founded Property Development Workshops, a property development education company, in 2004

Jim has a Post Graduate Diploma in Urban Estate Management (Property Economics) from University of Technology, Sydney. He is a well-respected industry leader and whilst always engaged in developing, he makes time to share his knowledge through his Workshops and Masterclasses, presents regularly at Business Functions and Study Groups, and has featured on Sky Business Real Estate News Programme.

Jim's passion for property development is such that he has made it his mission to help as many entrepreneurs as possible to succeed in this extremely challenging but equally rewarding industry.

For more information about Jim and Property Development Workshops, visit:
www.propertydevelopmentworkshops.com.au

Build captures the experience of a former corporate executive who made a sudden transition into property development after 20 years in corporate life, and with no previous experience in the real estate industry.

Read this book to:

- Learn what it takes to **survive and thrive** as a property developer
- Understand the **property development process** from start to finish
- **Reduce risk** and get to grips with due diligence and **financial feasibility** analysis
- **Source the best sites** and cut out the middleman to get the best deal
- **Develop like a pro** and master everything from approval to construction
- **Finance** your projects through correct **legal structures** and financial modelling

Understanding the concepts in this book will provide you with the blueprint to successfully undertake property development, maximise cash flow, attain huge profits, and accumulate private wealth.



Jim Castagnet has been engaged in the many facets of Property Development since 1998. As well as successfully developing high-end luxury apartments in Sydney's Eastern Suburbs he has been running educational seminars in Property Development since 2004. Learn more at www.propertydevelopmentworkshops.com.au

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