

How to Choose a Site with Great Development Potential

by Adrian and Amber Zenere

We can't tell you the number of times we've seen inexperienced developers rush in and buy a site because it looks like a great opportunity, only to find themselves struggling, and regretting their decision, further down the track.

We believe that it's essential to perform proper due diligence and a thorough site evaluation before making an irreversible commitment to acquire a site, preferably using a checklist.

When we're satisfied we're able to develop a site and we're happy with our initial *'back of envelope'* calculations, we don't immediately acquire the site. Instead, we come up with an initial concept. This is where we do some rough sketch layouts (we may even come up with a number of different options), using the Local Authority Planning Codes and Policies.

In most situations, depending on the local authority planning codes, the area of the proposed building will be based on the land remaining after allowing for required boundary setbacks, car parking and manoeuvring and open garden landscaped space.

This, together with the preferred unit size (determined through our initial Marketing Research) will indicate the number of units that can be accommodated on the site. To get the maximum benefit out of a site, a competent and experienced architect should be engaged to create these initial concepts.

As we haven't gained control of the site yet, we can still back out of the deal. We prefer to quickly prepare schematic drawings to determine the true potential of a particular site, because if we don't, we're just gambling with usually very high stakes.

As soon as the concept drawings are finished, we fine-tune our *'number crunching'* by undertaking a proper financial feasibility study. The purpose of a feasibility study is to establish whether a project is a viable proposition or not.

If the concept doesn't pan out, we consider the time and effort we've put in to be our *"insurance premium"*, which has just saved us possibly tens or even hundreds of thousands of dollars, and untold stress, by helping us to avoid a problem site (lemon).

We use *"Feastudy"* property development feasibility software that allows us to work backwards to evaluate what the land is worth to us with development approval - this is called the *'Residual Land Value'*. This number is very important in calculating what we would be willing to pay to acquire the property.

We use *Worst Case* scenarios to do our calculations, which means we are conservative in the values that we input. We include anticipated time scales, all costs including consultants and construction costs, as well as likely end sale values, our minimum profit margin, plus a contingency allowance (depending on circumstances especially site conditions).

It is critical that this feasibility calculation is performed correctly.

If we try to develop a site which is not actually feasible, we are setting ourselves up for stress, disappointment, and possibly even large financial losses.

The feasibility study is also invaluable when putting together a JV or Loan Application Proposal as mortgage lenders or other investors can instantly see whether our project will be successful and the level of risk involved.

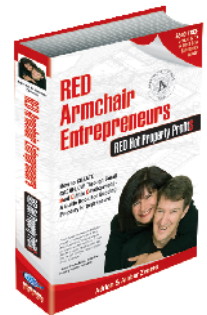
A lender will only fund a project which can be demonstrated to be financially viable - however, if we are funding the development ourselves, we need to be just as certain that the numbers stack up.

So many newbie real estate developers miss out the detailed feasibility step, and the really sad result is that they can end up suffering, emotionally and financially, and often give up on real estate development completely because they conclude that it "doesn't work".

We know that it does work. But only when the detailed feasibility study says it will work. Anything else is simply guesswork and high-stakes gambling. You may get lucky, but the reality is, you could also end up losing more than your shirt.

For more information browse: RealEstateDevelopmentClub.com

Adrian Zenere is a Registered Architect, Licensed Builder and Property Developer with nearly 3 decades of experience in the design and construction industry along with his wife and business partner Amber they have built a sustainable Real Estate Development (RED) business.



Together they run a busy Sydney boutique architectural practice archizen.com.au specializing in Holistic Architecture, combining eco sustainable development principles with the philosophy of feng shui, resulting in harmonious living that is respectful of our environment. Their projects are regularly featured in the Australian Property Investor, Luxury Home Design, Lifestyle Magazine, Home at Yellow and many Sydney newspapers.

Adrian and Amber are also authors of the popular small Real Estate Development book '**RED Armchair Entrepreneurs RED Hot Property Profit\$**' and founders of the '**Real Estate Development Club**' where they use their professional knowledge and experience to help beginners get started in small property development and build a sustainable RED business.

To have a closer look at Adrian and Amber's Real Estate Development process and access your free webreport visit: RealEstateDevelopmentClub.com

To purchase Adrian and Amber's small Real Estate Development book for beginners visit: REDarmchairEntrepreneurs.com

