

WARNING: The 8 critical factors YOU need to know, prior to investing a cent into developing Commercial Property...

We have been developing commercial property for over 20 years now and over the last 10 years, as Smallbrook Construction and Development ...

In that time, we have seen developers and their clients make a fortune in property development and we have also seen others drop a ton of money. They come and go, with varied results.

At Smallbrook Construction and Development, because we have been in the design and construction industry here in Western Australia as long as we have, we have seen the peaks of the boom and the trough of the GFC, we are still here and so are our clients...

It is important to gain as much knowledge about commercial property development, prior to commencing the building process.

Information is power and in commercial property development, it is also money.

Money that you can make or if done wrong, could be the money that you owe and are paying back for the next 20 years!

So as promised, here is the list of the 8 most critical factors YOU need to know, prior to investing a cent in developing Commercial Property

1. Financial & Legal Advice *BEFORE* you sign anything!

Prior to purchasing a property to develop, there are several aspects that you need to consider. Make sure you do not sign anything until you have received informed advice from your lawyer and accountant.

The first person you should contact is your accountant as they can assess your financial situation and advise as to whether you can afford to take that step at all or with a particular development idea.

It is very important at this early stage to discuss with them the name of which the property will be bought under.

The reasons for this are:-

1. Once an "Offer and Acceptance" is signed the name on that offer will be liable for the stamp duty, so having the correct entity name is vital

2. There are many different types of entities to which you can buy a property in, Companies, Trusts, Personal Super Funds etc. These all have very different tax implications and can “make” or “break” a deal
3. Asset protection – by having the right entities in place you can protect your other assets in case something goes wrong
4. Other people you will need to consult are Solicitors and Settlement Agents

2. Site Position – Make sure it has “Location, Location, Location” and you buy at the right time... “Timing, timing, timing”

It is very important to buy a property in a good location. This not only improves the value of the finished building but also improves the likelihood of getting a quicker sale or lease.

Things to consider when looking at a site:

- Access to freeways- Many businesses will require a direct and fast link to the freeway and major highways, ease of access to the Fremantle Port, International Airport, Domestic Airport, Perth CBD and other business districts around Perth such as Malaga, Wangara and Canning Vale all need to be considered
- Infrastructure- Check public transport routes in and out of the area. Monitor key traffic routes in and out of the area for traffic congestion. Find out whether other key shops are located near by, such as Australia Post, Coles, Woolworths, Bunnings, Lunch bars and food outlets
- If you have the cash to buy a property outright, then sitting on land won't be so much of an issue for you, but if you are developing land and borrowing the funds to do so, then you want to be able to get the project completed and sold or leased ASAP. Find out the time line as to when the key stores and infrastructure are going in, to ensure that you have the cashflow or reserve to hold onto the project as it is being completed...

Timing is everything!

3. Market Research – trends, zoning and spacings size, is essential

Market research is vital to make sure that you build the right type, shape, colour, size etc of building. If your research tells you that there is an over supply of a particular size of unit, then obviously you need to build what is required.

There are many ways to find out this information. At Smallbrook construction we have this process systemized. There are many online options that will help as well. This stage is critical as you must know what the market requires and then cater for that market.

4. Feasibility – you can't afford to get this wrong 'double check it'

There are 2 forms of feasibility, a quick one and a detailed one. You should aim to get 30-35% profit on a quick feasibility. If you can't get that percentage just by throwing a few figures together in a couple of minutes then move onto the next property.

The detailed feasibility is going to take some time and may cost you some money. So you need to have this feasibility done right. This is a fully detailed costing of your project. You will need to cost every last cent and you need to get a 20% return to make it viable.

There are dozens of items that need to be included in the feasibility: Purchase costs, stamp duty, agents fees, construction, consultants, infrastructure, council and legal fees.

We can tell you from the very first meeting if your business project stacks up. The numbers don't lie and it is important to know the numbers are right from the start, prior to making such a huge commitment.

5. Build relationships – builders, suppliers, real estate agents, finance providers, lawyers, designers etc...

Building relationships with key people will make all the design and construction steps a lot easier.

Building a great relationship with the builder you intend on using is a great start. They will generally know most of the people that will need to contribute to the construction of your project. They also have "insider knowledge" that is vital to know and they can point you in the right direction. A good builder will help you out considerably.

Building relationships with key suppliers, contractors and government agencies will allow you to get advice with a quick phone call and minimal charge and will speed up the time it takes to do your feasibility. It will allow you get trade prices with suppliers for materials and services. Knowing the right people lets you have first pick of the best properties and gets you into the market before the good properties get sold.

Choosing the wrong people can at the very least cost you time and money if their information is not correct, at worst, you can be taken to the cleaners. A poor choice of builder can impact the accuracy of your feasibility, costings, plan and development... If you are not sure get a second opinion.

6. Consultants and Builders - Make sure they have the relevant experience and expertise that you require

Always research your consultants and builders before appointing them.

Make sure that they are qualified and experienced in what you are intending to build and give them a brief overview of what you want and make sure they can deliver in a timely manner, as time is money.

Sometimes the cheapest is not always the best. Choosing the wrong people will create a nightmare. Your builder must be flexible and must be able to work with every stakeholder in your project. We have seen many an argument between consultants that has resulted in tears.

You want to make sure that your builder has a good relationship with his sub-contractors and suppliers ones that are used consistently and ones that deliver quality work. A builder who uses anyone that they can get, scraping the bottom of the barrel so to speak, can send a builder and subsequently you the investor, broke.

In the end this will cost the client time for construction and quality, not a good look if you have settlement dates booked and you cannot deliver peoples properties on time.

At which point you could sue your builder for liquidated damage and that is the last thing you need.

7. Engaging a builder – Make sure you are 100% happy with what they and their customers have told you?

This is absolutely critical! Your builder should have your best interests in mind at all times. Make sure they give you a construction timetable. Your builder will need to be flexible and want to work with you, not against you. Get this wrong and they could “make or break” your deal.

But also make sure they are experienced and efficient with their construction times. Check their testimonials and speak to some of their past clients. Remember that the client-builder relationship should be a team effort and all will go well.

The builder should be letting you know before construction starts of any potential problems so that downtimes are minimized. He should be communicating with you on a regular agreed basis, reporting on construction progress.

With efficient trades and construction programs your building should be completed on time to a high quality. The construction of your development should be a worry free and exciting experience.

8. Sell or lease – ‘What’s your strategy’ Are you selling or leasing?

Try to pre-sell and/or pre-lease whichever is your strategy. Not only will it keep the banks happy, but it will reduce your risk and that is a good thing. Depending on your strategy the banks will have a very different view of how they will lend you the money.

They may require other properties as security or want pre-sales to the value of your borrowings, having an understanding of the banks criteria and their Loan to Value Ratios will help you to decide the correct strategy for you.

By now you should have a good idea of the good agents in the area and from your relationship building. They can now be engaged to get your finished product SOLD!

I hope that you have learnt something from and enjoyed reading this report. Trusting you have gained some more vital insight into the causes of delays, price blow outs, time delays and poor construction and more importantly, how to avoid them and maximize your development profit!

The main reason for our longevity at Smallbrook Construction and Development is that as mentioned, we know where the pitfalls, bottle necks, delays, causes of cost blow outs, completion issues, approval delays you name it, we have experienced and solved it. Because we provide an ‘end to end’ service, to guide your development through these traps we are able to assist in the completion process, making it as pleasurable and “pain free as possible” ...

By us systemizing the design and development process we can minimize the risk associated with ‘doing it’ yourself and maintain our hands on service approach, achieving the completion dates that the other big companies can’t.

Hence the reason for our saying “hand us your land and we’ll hand you the keys”

If you are serious about developing commercial property and you are also serious about avoiding everything that can go wrong, please call us for an obligation and cost free appointment to discuss your development options.

For further information please contact me personally
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