



Sourcing development sites

You make your profit when you secure the site. It is at this point that many would-be developers fail. They purchase the wrong site, for the wrong reasons, at the wrong price and in the wrong location.

In my workshops I always ask participants to list on a sheet of butcher's paper where they go to source a development site, and invariably the same answers come up: real estate sites on the internet, newspapers, real estate agents, word of mouth, family and friends.

This is what you do when you look for a site *passively*. In other words, you're waiting for someone to put a site up for sale, and you're hoping it's the right one for you. And if it's not quite what you want, against your better judgement you may try to adjust your business plan to fit, because you are anxious to start developing. I can tell you that this will absolutely increase your risks and your chances of failure.

Apart from the fact that the site is now on the open market and you will have to compete on price with other bidders, perhaps at auction, there is a reason why the site is for sale in the first place. And often it is not a good reason. Let's face it, if the site is a 'cracker' that is going to make lots of money, why is it being sold? Don't get me wrong, not every site on the market is a 'dog', but you have to do your due diligence and make sure there are no technical or other hidden issues.

For example, if it is a DA-approved site the conditions of consent may be onerous and require costly resolutions that make the site unviable. Most sites for sale that I have assessed are not fundable. In other words, the owner has not been able to secure the necessary finance to do the construction. This is a huge red flag. Despite all the complaints about how hard it is to get development funding from the bank, these harsh criteria do provide us with the comfort of knowing that if a bank is willing to fund a project, it will be relatively 'safe'.

To run a business (remember, you're running a property development *business*) you have to be able to control how and when you pay out and the amount of money you are prepared to spend to make money. The best development sites never make it to the market. So what I would like to share with you is how you can *proactively* source property development sites based on your own predetermined criteria. I want to introduce you to my proven system for locating the best development sites: what I call 'The Funnel Approach'. And this approach allows you to acquire sites "made to order"



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Sites made to order

When sourcing a development site it is fundamental that you obtain one that you have ‘designed’ for your own requirements. In other words, you need to decide the specific purpose for the site — for example, as a luxury residential development, a mixed-use development in a town centre, or a commercial or industrial development.

It is critical that you master this ***predetermined criteria*** method, because what I will show you is how you can ‘take orders’ from clients seeking sites and fulfil them to make your own very profitable site acquisition business. Your clients might include, for example, other developers, corporate clients or construction companies who are geared to build and are looking for sites that meet specific criteria in predetermined locations. More on this later.

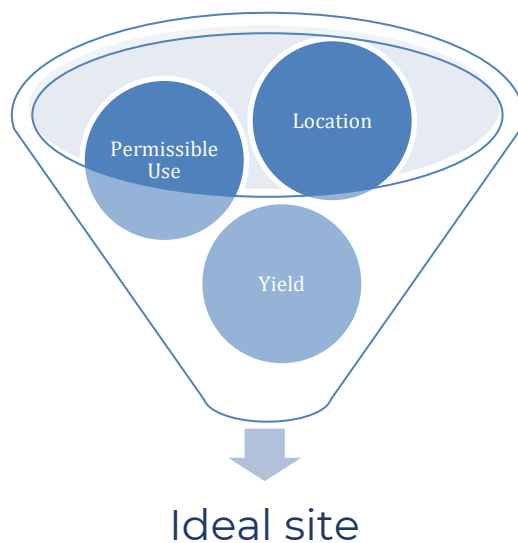
As a matter of course you will need to set a budget, and you need not be limited by your own bank account here, as I will discuss later in the book. You will also want to pick a location that you would like to be active in developing.

One of the givens for me is to know your patch. Pick a location to which you have ready access, perhaps near where you live or in the next town or municipality along, then get to know it like the back of your hand.

You will know what’s selling, for how much and so forth at any given time. You will know all the real estate agents who work the area, and you will be very familiar with the local council, the councillors and the information on their website. Even the local rag is a great source of information. You can be sure that if any controversial developments are proposed in the area, the story will make the local paper. In addition, Council is obliged to advertise any proposed development according to criteria defined in their Local Environment Plan (LEP).

Here's how my Development Site Funnel works.

Figure 3.1: Locating the ideal site



From a more practical point of view here's the process you will go through to find your ideal site quickly.

Site Analysis

Once you have located a particular site you are interested in, you will undertake a Technical Site Analysis as part of your due diligence. In due course you will require the assistance of your architect and other consultants, such as the land surveyor and geotechnical engineer, as any site may potentially contain in-ground risks. However, before determining whether you want to go further with the site you can do some initial analysis yourself.

The following are some of the very basic issues to consider:

- a. Check the site's orientation. Is it facing north? A north-facing site has a great advantage when you are designing your development, as it will be much easier for you to achieve the required energy ratings to gain DA approval.
- b. Are there any significant trees on the site? Council may not allow the removal of certain trees, which may be heritage listed. Depending on their location, large trees can pose significant buildability issues as well as reducing the overall yield for a site.
- c. The depth of the water table can be problematic if you're considering basement car parking.
- d. Are there issues relating to privacy and overlooking neighbours?

Each site will be different, and this list is by no means exhaustive. The financial impact of any technical issues must be taken into account in the financial feasibility analysis.



Figure 3.2: The Development Site Funnel

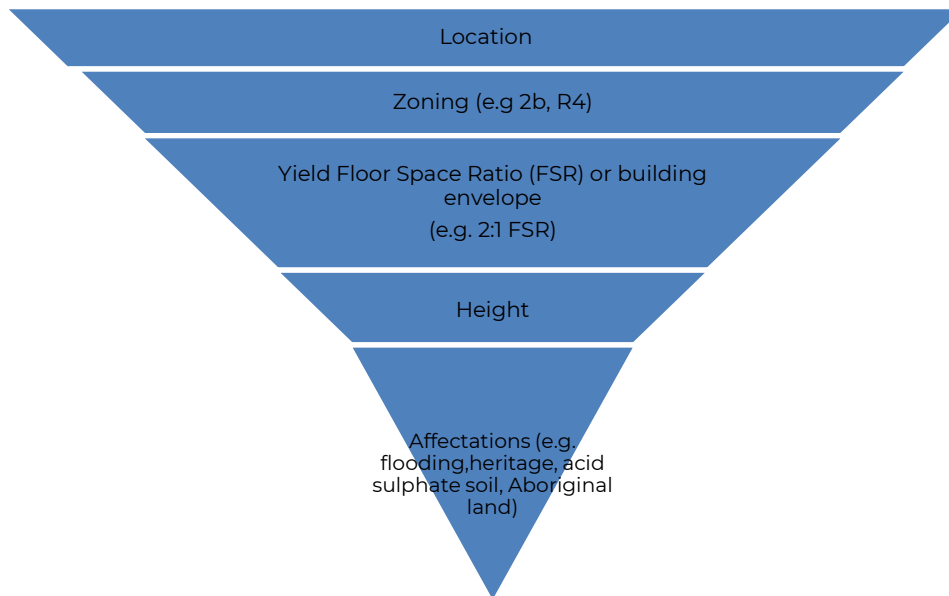


Figure 3.1 identifies the three areas you need to focus on when locating your ideal site:

Location

- Choose your location. (Consider proximity and access, the type of development you want to do, target market, budget, zonings, imminent LEP changes, government policies etc.)

Permissible use

- Go to the council website and access the planning maps. The Land Use Map will show you the zonings within your location.

Yield

- Now access the density map (FSR) and height maps. Pick the areas with the greatest density and building height.
- Once you have narrowed it down to the specific areas, streets and sites with the highest densities and height allowances, check those sites for any affectations. In other words, check for any issues that might affect the land, including those listed above. I would disregard any that are heritage listed, for example.



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- By now you will have focused your search on, say, a particular street and a few suitable sites on that street.
- Now narrow it still further to, say, three or four sites, depending on the size of the land parcel and whether you may have to amalgamate to make a bigger site.
- At this point you will probably need to take a drive and do a site inspection to identify any issues, positive or otherwise, that might affect the sites you are assessing. Those issues could include exposure to traffic, proximity to schools and transport, other similar developments in the area, site orientation and of course views.

I am fortunate to live in the beautiful harbour city of Sydney, where the harbour really dominates local planning rules and guidelines. Aside from the views, which the residents will do anything to protect, there are very strict guidelines on the bulk and scale of development around the harbour foreshore.

Recently a major development company went into liquidation while trying to develop a significant site in the harbourside suburb of Double Bay. They had badly underestimated the determination of the local residents to resist overdevelopment. Knowing your planning guidelines and, importantly again, the stakeholders and general local conditions and feel of the area will be invaluable to you. We will cover this in more detail in the site analysis section in the following chapter.

Once you have considered the physical attributes of the sites and have selected one or two, you will want to carry out a Financial Feasibility Analysis. This will determine the project's viability and, critically, the Residual Land Value of the site. Residual Land Value is quite different from the market value of the land. If you have done your homework, typically it will be considerably higher than the market value, which is why you can offer the landowner a better deal than even the most enthusiastic real estate agent could. It is also why you are able to obtain an Option agreement from the landowner.

The Call Option, by the way, is the best way a developer can acquire land, as I will discuss in detail in the chapter on site negotiations and acquisitions in Module 3.

'But wait,' I hear you say. 'How do I know this site is even for sale?' My answer is simple: **EVERY site is for sale.**