

A hand holding a black pen is shown in the upper left, drawing a city skyline on a piece of paper. The drawing includes several tall buildings of varying heights, some with hatching for shading. Above the buildings, there are curved arrows indicating growth or movement. To the left of the buildings, there is a small cloud-like shape with the word 'urban' written inside. Above the buildings, there are some numbers and a line graph-like element with the numbers '400' and '500' and a series of vertical bars of increasing height. The background is a light, textured surface.

PROPERTY DEVELOPMENT IN AUSTRALIA

A PERSPECTIVE

Property Development in Australia

Recently, many overseas friends and investors have asked me what property development is like in Australia. What are the risks, benefits and is it easy to make some good profits easily? Is it easy to get government approval? How long does it take and what are the pitfalls? How much money do I need?

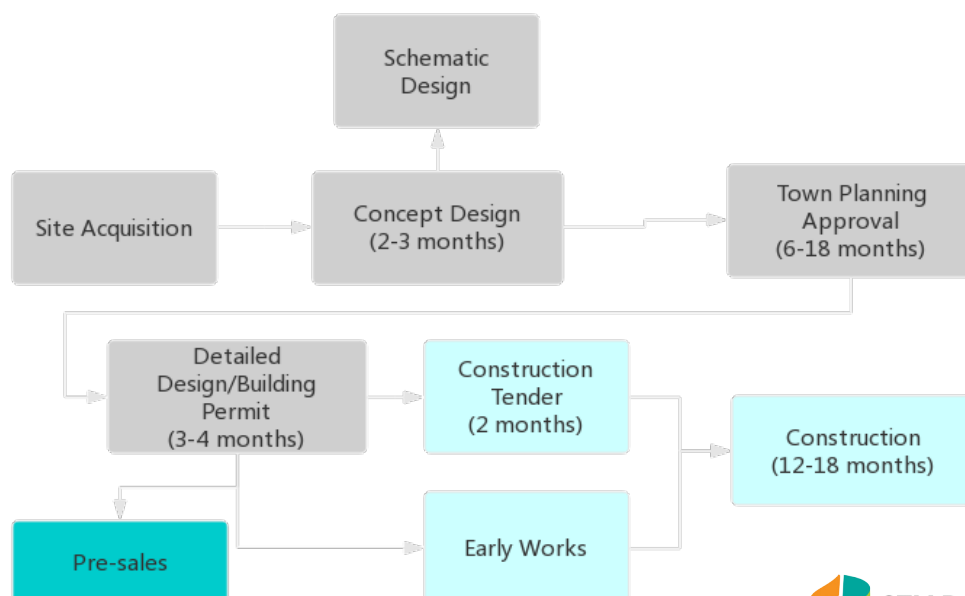
I felt it necessary to answer all these questions in a comprehensive manner and this short insight will hopefully clarify the situation to a certain extent.

Australia is seen as a politically stable country, with strong macro-economic fundamentals, growing population, a balanced and cultured lifestyle, good education system, fresh and unpolluted air and water and above all, a nation of very nice and generous people. In three short words, "heaven on earth". However, as with any western democratic capitalist society, property development in Australia is not an easy undertaking – burdened by government red tape, planning, market, sales and construction risks. But the reward can be substantial, with return on invested equity easily reaching 20% per year and may sometimes be higher than 150% per year, depending on the product, market conditions and project size. But reward comes with risk!

Our extensive years of experience in property development and

construction in Asia and Australia suggests the following key success factors in the industry:

- Property development is not a linear process – i.e. Activities do not happen one after another. Quite often, events need to take place concurrently, and one needs to be always flexible and fluid in their approach to be successful. Take an example – do sales always start after town planning approval? Not necessarily, as long as you are reasonably confident your design will not drastically change. A recent project in Sydney commenced construction 2 days after receiving planning approval! This is orchestration and project management at its best. After all, time is money.
- For small to medium sized developers, there is a very heavy reliance on external consultants and contractors – architects, engineers, council, builders, contractors, planners and the list goes on. To be successful in driving the project to an outcome, one needs to adopt a very disciplined and professional approach to project management. Any form of "part time" endeavour is destined to failure. Being a good project manager is akin to herding a large cluster of cattle, all trying to wander off in their own direction. A good cattle



herder (project manager) has both the skills and tenacity to drive to an outcome.

- A successful property developer is a smart risk taker – they know when to stretch the boundaries and when not to, and understand what the financial, legal and commercial consequences are. We can't divulge too much here without giving away too many commercial secrets, but if you do not enjoy the challenge of risk taking, property development is not for you! After all, how can you make 150% per year on your equity without some form of smart risk taking? There is no free lunch in this world!

- You need to be ahead of the market to be successful – what is the next big market trend? How do I create a lasting appetite for my end-product? Especially in today's market where expectations are every increasing, I have seen the most successful property projects are those which are unique and one of its kind – a wow factor, something the market have not seen before and values deeply. Something the market talks about all the time. This does not necessarily imply spending the big dollars, but it does involve innovative thinking and personal passion for property. Designing the appropriate product for the target demographic and location is just so vital – very often, overly subjective developers fail. Take an example – I recently saw a brand new apartment project in the inner eastern suburbs on a busy road with a "rustic" design – we are talking about exposed concrete ceilings, brass fittings, designer lighting, graffiti walls. Yes, low cost and trendy cool at the same time. However, no apartments were pre-sold and sales were very slow and painful following construction. They just got the product wrong for the location!

- Developers develop strong and close networks of experts and knowledge around them. They always seek external advice and talk to many people in all aspects of the process. They are constantly talking, reading and meeting people. They do not only rely on past experience and always start from first principles when initiating a new project. How does an apartment project in Collingwood differ from one in Hawthorn, or in Ringwood? Talk to your trusted agents in those areas to gauge the market demand and design appetite. Where are some good off market sites? Talk to a Council and good planners. Who recently designed the adjacent apartment building which sold out in 4 weeks? Why is the project next door still selling 1 year from launch? Who is your target market? What is the optimal mix?

We appreciate and continually practice and implement these principles in everything we do.

I would like to consider property development in a step by step manner and outline below how STM Developments could assist you to navigate through this jungle of complexity:

Stage	Key Activities	Major Risks and Uncertainties	STM Developments Value Proposition
Site Acquisitions	<ul style="list-style-type: none"> - Site Sourcing - Due Diligence - Initial Feasibility Analysis - Market Research - Project Finance - Commercial Negotiations - Consultant Engagement 	<ul style="list-style-type: none"> - Site is sold before you get a chance to bid - Overpaying for sites - Very few profitable sites (especially today!) - Inadequate allowances for external works (services) - Settlement risk – finance not ready 	<ul style="list-style-type: none"> - Extensive networks of local agents, planners, architects, finance brokers, bank relationships - Focus on off-market sites only of any size - Working feasibility model which covers all costs and contingency and forecast cash flow - Skilful negotiation of price, settlement and other terms - Disciplined checklist approach to due diligence (tax, utility services, build cost, design feasibility, legals)
Concept Design	<ul style="list-style-type: none"> - Site Analysis - Site Survey - Design options - Neighbourhood Character - Market Research 	<ul style="list-style-type: none"> - Cost overrun – overdesigning - Designing the wrong product and mix 	<ul style="list-style-type: none"> - Many years professional track record in designing and project managing complex projects in Asia and Australia - Strong local market knowledge and networks of professionals – knowing which architect is suitable for what type of project
Schematic Design	<ul style="list-style-type: none"> - Market Research - Layouts and elevations - Neighbour Interface 	<ul style="list-style-type: none"> - Cost management - Designing the wrong product - Too much focus on yield and not enough on the market appetite - Pushing too hard for an un-approvable design or building height 	<ul style="list-style-type: none"> - Definition of a clear client brief to enable efficient design process and avoid second guessing and numerous iterations - Control of design proposal – knowing where to stretch the limit
Town Planning	<ul style="list-style-type: none"> - Council negotiations - Neighbour liaison 	<ul style="list-style-type: none"> - Allowing Council to guide the process too much - Being reactive rather than proactive 	
Detailed Design	<ul style="list-style-type: none"> - Detailed Documentation - Design Co-ordination - Site Investigation - Market Research - Building Permit 	<ul style="list-style-type: none"> - Cost overrun - Letting personal preferences overrule market appetite - Time overrun – lack of co-ordination in design and no strict project management 	<ul style="list-style-type: none"> - Strict Project Management processes and mentality in place - Focus on time management and PM by milestones and deliverables - Structural engineer by profession – value engineer the design
Financing	<ul style="list-style-type: none"> - Finance offer and approval - Pre-sales requirements 	<ul style="list-style-type: none"> - Not obtain a commercially viable finance offer - Failing to determine what is more important – time or cost savings in finance 	<ul style="list-style-type: none"> - Extensive working relationships with all major banks in Australia - Understanding the rules of the game – what different banks look for and their appetite for development finance - Broker network to leverage non-bank and mezzanine finance if necessary
Pre-sales	<ul style="list-style-type: none"> - Marketing Collateral - Contract preparation - Print Advertising - 3D images, floor plans - Display Suite 	<ul style="list-style-type: none"> - Inconsistent message to your agents - Lack of incentives for agents or buyers - Poor articulation of sales strategy 	<ul style="list-style-type: none"> - Being an estate agent as well, we know the industry practices and what incentives are necessary to drive sales - Utilisation of our own direct sales channels - Strong marketing focus to deliver a solid and unique image to buyers; willing investment in marketing
Construction Tender	<ul style="list-style-type: none"> - Builder pre-qualification - Tender documents and contract negotiation 	<ul style="list-style-type: none"> - Choosing the wrong builder for the project - Builder too busy on existing commitments - Poor Negotiation tactics 	<ul style="list-style-type: none"> - Builder relationships and networks that can be leveraged for each project - Packaging of project works to optimise costs
Early Works Packages	<ul style="list-style-type: none"> - Demolition, site clearance works - Asbestos Removal - Services abolishment - Authorities liaison 	<ul style="list-style-type: none"> - Authority delays in approvals and permits - Timing – availability of contractors 	<ul style="list-style-type: none"> - Co-ordination and project management - Administration capability – save costs by internalising various admin activities
Construction	<ul style="list-style-type: none"> - Build construction - Quality Supervision - Variations management 	<ul style="list-style-type: none"> - Quality risk - Construction not as per design documents - Time overrun and delays 	<ul style="list-style-type: none"> - Hands on approach to project management -site visits, meetings and material inspections - Strong eye for quality
Handover & Settlement	<ul style="list-style-type: none"> - Practical Completion management - Handover checklist - Settlement preparation and co-ordination 	<ul style="list-style-type: none"> - Poor quality on handover - Settlement delays and legal and finance risks 	



STM Developments

YOUR TRUSTED AUSTRALIAN DEVELOPMENT PARTNER

OUR CAPABILITIES



SITE ACQUISITION

Solid pre-acquisition due diligence and sourcing of the best on and off market development sites is the first step to a successful project.



PROJECT FEASIBILITY

Thorough market research, detailed risk assessment and a robust project feasibility analysis will provide comfort for a successful acquisition.



DEVELOPMENT MANAGEMENT

Leading and managing all project consultants and stakeholders and securing the best planning approval is a crucial first step in the development process.



PROJECT MANAGEMENT & FINANCING

Disciplined project management, design and documentation management and cost control within feasibility limits will ensure projects are completed on time and to budget.



INVESTOR REPRESENTATION

On larger scale joint ventures or projects, negotiating development agreements, undertake commercial and technical due diligence and representing investors throughout the project will ensure their interest and risks are managed.

ABOUT US

STM Developments is a property development & advisory business based in Melbourne, Australia.

We work alongside developers and investors, providing site acquisition, feasibility analysis and project management services for residential and commercial projects. We initiate and participate in property development joint ventures as project proponent. We also act as investors' independent representatives as their point of contact for their co-investment projects and joint ventures.

Founder and Managing Director Simon Lee has more than 17 years of professional experience in all major facets of the development industry in Australia. He has successfully designed, led and managed major commercial, retail, mixed use and residential projects in Hong Kong and Australia ranging in value from \$4 million to \$20 billion. Simon is also an occasional guest lecturer and tutor at the Faculty of Architecture University of Melbourne.

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