

COMMON MIS CONCEPTIONS ABOUT PROPERTY DEVELOPMENT AN INSIDER PERSPECTIVE

A PERSPECTIVE



Common Misconceptions About Property Development An Insiders Perspective

Throughout the course of my property career, I have experienced many different types of projects, stakeholders, clients and consultants and have developed a very realistic and practical perspective on how to succeed in the industry. I always see success in the real estate industry is not only dependent on how hard one works, or how technically competent one is, but very often, on how one goes about pursuing the development project. Bear in mind that hard work and technical competence are both essential attributes of any successful business. However, property is much more than that. Luck and experience comes into play, but the more important aspect is an appreciation of how things get done, and what can or cannot realistically be achieved, given timing, technical and cost constraints.

There are often many misconceptions about the industry and how projects are actually pursued. These misconceptions often arise from word of mouth, or from pure emotion driving decision making. Let me share some of these:

1. **Misconception 1 – Town planning allows a certain building height, therefore I will definitely achieve this height.** A site allowing a certain building height or density does not automatically guarantee that height or density. There are other factors to consider, including shadowing impacts, overlooking, privacy and issues relating to neighbouring properties. It is not just simply the case of pursuing the matter through the courts or legal means. Sometimes, there are aspects which just cannot be pursued. This places importance on effective due diligence at the outset of any project.

2. **Misconception 2 - The higher the number of units, the greater the value of the site.** I have seen many times throughout my career the incorrect positioning of the project from the outset – developing 16 apartments, in lieu of 6 townhouses. Sometimes, less units may mean more profit due to the actual demographic of the site location and buyer demands and prevailing market conditions in that very locality. These are very site specific considerations which require an objective assessment of the market. Remember, the market drives the develop-

ment outcome!

3. **Misconception 3 – Planning Permits always add value to a site. For small sites up to 4 units, this is definitely not the case.** I can say for certain that dual occupancy developments are not as profitable as selling the existing house as is. This is due to various costs involved in developing the project to completion, including taxes, GST, selling costs, consultant costs and building costs (which seem to escalate very rapidly). Even for three or four unit developments, one may be better off selling the existing house as is, rather than spending 2 years developing the project!

4. **Misconception 4 – Buying small sites using a benchmark sqm rate or rules of thumb.** For small sites, one should always use first principles to determine site value. Benchmark sqm rates only serve as a sanity check. This is due to the fact that each site is unique in its nature – zoning, orientation, interface with neighbours, location, proximity to services, topography. Take a simple example – a residential zoned site capable of building 100 townhouses under less stringent planning provisions, versus 60 townhouses due to the requirement for large private open space area and the existence of some very large trees on site. These two scenarios will obviously yield a very different land value. Obviously, if one was buying 100 hectare greenfield sites, a sqm rate is most appropriate, as the above issues do not apply.

5. **Misconception 5 – Engaging a “good” builder guarantees on time and on budget completion.** In my 20 years in the construction industry working with both multi-national contractors and small domestic builders, I can say that there is no such thing as a “good” builder or contractor. It ultimately depends on the particular people in charge and how well his management and administrative skills are, when dealing with sub-contractors. Being a project-based industry, the team is much more important than the brand. Large organisations does not necessarily imply competent

staff. Small companies does not imply incompetence. One has to do their due diligence thoroughly. In the end, even the most competent leaders can fail, as somewhere along the project process, one of more sub contractors may fail to perform for reasons outside of anyone's control, and that leads to non-performance of the whole project. You may have the best carpenter in the world, but if the timber does not arrive on time, he is delayed. Or if the timber arrives on time, but in the wrong specification. These things will happen to any large or small company in any country. So, in any given project where there may be at least 30 sub-contractors, how can any builder guarantee strong performance from all 30 sub-contractors consistently every day for 2 years? As such, the good contractors deploy extensive technology such as pre-fabrication and automation to reduce the likelihood of human error.

6. **Misconception 5 – Design consultants know how buildings are built.** In my experience, very few design consultants – architects and engineers know how a building is actually put toge-

ther. They can come up with design flair or talk about the concepts, but very few know how a building is constructed. And indeed, very few I have seen can actually draw up a set of construction drawings accurately. Buildability and ease of construction may sometimes mean success or failure for your project. The concept of buildability has led to different procurement approaches such as early contractor involvement, design and build contracts, guaranteed maximum price contracts with early contractor involvement, or appointing a construction advisor during design phase. These fancy termed approaches have created new professions and industries altogether.

Next time you are considering your next project, do have a chat with us and we can provide you with another point of view. We combine broad project expertise and hands on management to add value to projects.

The above constitutes the author's opinion and should be relied upon by the reader in making any commercial decisions.



STM Developments

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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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