

INTRODUCTION TO THE PREPARATION OF A PROPERTY FEASIBILITY STUDY



7 STEPS TO SUCCESS

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Building Design ❖ Interior Design ❖ Project Management

WELCOME

This guide was prepared after seeing so many people struggle with understanding the property development process. This process can seem like a complex and frightening road block for those who haven't been through it before. The first and most important step is to find and hire your building design professional.

A Feasibility Study aims to objectively and rationally uncover the strengths and weaknesses of an existing development or proposed venture, opportunities and threats present in the environment, the resources required to carry through, and ultimately the prospects for success. In its simplest terms, the two criteria to judge feasibility are cost required and value to be attained.

A well-designed feasibility study should provide a historical background of the business or project, a description of the product or service, accounting statements, details of the operations and management, marketing research and policies, financial data, legal requirements and tax obligations. Generally, feasibility studies precede technical development and project implementation.

A feasibility study evaluates the project's potential for success; therefore, perceived objectivity is an important factor in the credibility of the study for potential investors and lending institutions. It must therefore be conducted with an objective, unbiased approach to provide information upon which decisions can be based.

Undertaking a property development requires many months of preparation before you actually get to see your hard work bare any fruit.

There is a lot of preliminary work that needs to be undertaken such as obtaining finance, securing the right site and putting together the right team of professionals to help you throughout the process.

Perhaps the most important element of all the preliminary work you must do with any property development project is the feasibility study. The two most common

components of a property feasibility study is the Planning Study and the Financial Feasibility Study.

In this document we will introduce you to the concepts involved in how to conduct a reliable feasibility study and why it is critical to do so with as much accuracy and forward planning as possible.

01. WHY CARRYOUT A FEASIBILITY STUDY

A well-executed feasibility study weighs up the pros and cons and crunches the numbers to ensure a good profit can be gained at the end and maps out a thought through and complete plan of attack.

A detailed feasibility study will essentially tell you whether your proposed development will be a resounding success or an unmitigated failure. It will highlight any potential problems or risks you may face along the way and whether those issues could make or break the entire project, issues such as; suitability of the site and what you can actually build on it, planning approval, dealing with the local council, addressing objections from neighbour's, budget overruns etc.

The bottom line is you have to know whether the numbers on your development add up and they need to be realistic. What are the projected costs and what type of profit margin can you expect to achieve at the end of the day? Without a clear understanding of whether or not your intended development is feasible from the outset, can it make you a decent return upon completion (after all, that's what any type of property investment or development is all about), there is really no point proceeding to the next stage.

So how exactly do you conduct a proper and reliable feasibility study?

02. CONDUCTING YOUR FEASIBILITY STUDY

Ensuring your project is viable actually involves conducting a number of feasibility studies along the way. Once you source your potential development site you need to check it for zoning and other planning constraints, you have to check the feasibility of developing the selected site.

This is the first of what will probably be many feasibility studies throughout the life of the project. In order to gain a clear understanding of whether your project is achievable you will probably need to outlay funds to engage the right consultants. Site selection involves doing a preliminary set of figures to check that it is worth pursuing to the next level. These figures are often at a simple, big picture figures that will give an early indication of the viability of the project. If these initial figures stack up, more detailed computer modelling can be implemented as the feasibility study takes shape.

The feasibility study should not be rushed. If you miss key aspect of the feasibility, it can mean the difference to success or failure – take your time.

The reality is your preliminary feasibility should be sufficiently accurate, even though you don't want to waste a lot of time and money putting it together. At this point you will need to have fairly exacting cost estimates for things like;

- Site acquisition cost
- Design costs
- Development and building approvals
- Operational works
- Construction costs
- Sealing & Titles
- Selling Costs

You should also have initial consultations with the experts who will form part of your development team if you proceed, particularly a Building Designer who will assist with issues like easements and council requirements when it comes to calculating

total site coverage, an in-depth analysis of the site and what it will yield per block. Generally, you should engage the services of;

- A Solicitor
- A Building Designer
- A Town Planning consultant
- Engineers (civil, structural, electrical, audio, traffic etc.)
- A Builder
- A Quantity Surveyor
- A Land Surveyor

Your consultants will help you assess sites as much as they can, but ultimately the precision of your preliminary assessment comes down to you and how well you input all your data. Remember that making a mistake at this stage can throw out all of your pre-planning work and potentially cost you substantially in the long run.

03. DUE DILLIGENCE RESEARCH

If you decide that a potential development site is worth exploring further, you then need to examine the highest and best use of the land. What can you do with the site? What can you build on it and how can you improve on it to make a profit?

For the first step, you should engage your Building Designer who will approach the local council and find out what type of development is allowed according to the property's zoning, the type of site coverage that's possible, what floor area is permitted, what building height is allowable as well as other planning constraints.

They will give you guidance on the likelihood of obtaining development approval for your proposed project & will provide a quick concept scheme that shows what size project you could put on the site.

Once you know what you can build, you can start researching the possible end value of the completed project., you should approach 3 real-estate agents who specialise in the type of project you are proposing to develop and obtain their

opinion of the value of the end product. We go into more detail on researching the end value of a project in Chapter 5 Market Research.

Depending upon the complexity of the proposed project you might get some other external consultants involved at this time, such as;

Your legal team who would search titles and consider contract conditions

Your marketing team to do local research on prices and services.

Your financiers to confirm that they will finance the project based on your feasibility.

Some checks that may be required at this point (varies from LGA to LGA) and would be adapted to the size and style of your development include;

Titles Office search – for any caveats, encumbrances or easements.

Companies Office – check identity and financial standing if the vendor of the proposed site is a corporation.

04. MARKET RESEARCH

It is essential to confirm that the type of project you are considering addresses buyer and tenant demand in the local area. Will it appeal to the right market and sit in the right price range?

You must understand who lives in the area, who aspires to live there and what type of services or amenities attract buyers to the location. The aim is to design a project that fits in with the region and is targeted at the market you have identified for the area.

At this point, you should approach at least 3 local real estate agents and get written estimates of what your end product will sell for. These will form part of your feasibility document if you intend to take the project further and seek funding for your development. They will also tell you whether there is sufficient profit to be gained upon completion.

There are a number companies who provide up to date market research resources online such as:

Colliers International - www.colliers.com.au/findresearch

Knight Frank - www.knightfrank.com.au/research/

Jones Lang La Sale - www.jll.com.au/australia/en-au/research

Or if you want to have your own market research carried out you can enlist the services of a Market Research Consultant through websites such as www.Guru.com and www.Freelancer.com.au

05. FINANCIAL FEASIBILITY

Arguably, the most important aspect of a Property Development Feasibility Study is the Financial Feasibility.

A study on whether a project is viable after taking into consideration its total costs and probable revenues. If the revenues cover the costs of the project, then the project is considered viable, if the revenues exceed the costs it is considered profitable. For instance, the total costs to develop a property is \$500,000 and the total sales revenue is \$1,000,000. Thus, the project is feasible as its revenue more than cover its costs.

You may chose to use computer software to assist in the preparation of your financial feasibility study. It is important to use specially designed property development feasibility study software packages such as:

Feastudy 7.0 - www.devfeas.com.au

Malyshka P/L – malyshka.com.au/development-feasibility-calculator/

EstateMaster – www.estatemaster.com/products/

They are powerful but simple to use tools, however as with any type of analytical software the results it provides are only as good as the information you input and they can give you many detailed reports, however, at the initial stage, you could use basic profit and loss report for assessing it's viability. When preparing an application to a financial institution, the more detailed the information the better. An example of the type of inputs that go into a program like **Feastudy** will include;

- The purchase price, purchase date and settlement.
- Stamp duty on the purchase and mortgage are calculated automatically depending upon the State in which the project is located.
- Your equity in the project will then determine the size of the borrowings required and interest payable.
- You will need to input a finance establishment fee, which is generally a percentage, but can be a flat fee.
- Conveyancing and legal costs – usually a flat fee but can be a percentage of the cost.
- Consultant's costs, such as building designers, town planners, engineers, and surveyors etc.
- Construction costs are included and staggered over the life of the project.
- Rates and taxes are self-populating based on the properties values.
- A contingency amount is allowed for.
- Income from sales and rentals are included.

06. WE CAN HELP

Project Works Design is often contacted by people with an idea about a project they have in mind, but are unsure of how to get started. Common questions we receive are:

- *How much will it cost?*
- *What will the council allow us to do?*
- *How many square metres can I build?*
- *Is it feasible?*
- *How many units can I build?*
- *How much parking do I need to provide?*
- *What is the process?*
- *How long will it take to get approval and build?*

- *I have a site / want to buy a site / want to lease a property. What can I do with it?*

Project Works Design now provides Site Evaluation and Planning Services to help answer these questions and more.

Site Evaluation + Planning Services

Each Report is unique and caters to our client's specific needs. We can include everything on this list, or you can pick and choose:

- **Client Meeting:** Hold a meeting with the client to gain a better understanding of the project needs and goals.
- **Property Walk-Through:** Conduct a walk-through to review existing conditions and accessibility.
- **Code Analysis Report:** Provide a detailed analysis of applicable building and zoning codes.
- **Project Program:** Assist the client in the development of a preliminary project program and scope of work.
- **Project Schedule:** Develop a preliminary project schedule. The schedule will include a timetable from design to permit.
- **Consultants Estimate:** Determine the applicable consultants needed to complete the project and provide estimated fees for their services.
- **Preliminary Site Plan:** A preliminary plan of the site depicting parking, building footprints, general site circulation and possible landscape areas.
- **3D Rendering Massing Model:** A conceptual study of the project's massing, outlining a general understanding of the size and scale of the project.
- **Preliminary Floor Plans:** A typical space plan, depicting the overall size and shape of the proposed building, but excluding any details yet to be determined, such as openings, fixture locations, windows and doors.

- **Preliminary Elevation/3D Rendering Study:** Studies of one or two major building elevations or a conceptual 3D rendering of one or two major project facades.
- **Preliminary Construction Cost Analysis:** A preliminary construction cost estimate based on the preliminary code analysis, site plan, space plan, and elevation studies. This analysis will be based on our previous project experience and reviewed by a licensed builder.
- **Development Financial Feasibility:** Coordinate with a financial consultant who will provide a detailed development financial feasibility based on the proposed project concept. The financial feasibility will include project hard costs, soft costs, and anticipated developer profit. The development financial feasibility may also include potential financing options.

07. CONCLUSION

This introduction is meant as a guide to preparing your project feasibility study. This initial feasibility study will form a base document for your project that you will update, add to and amend as details of your project become clearer.

Remember to always include contingencies in your feasibility to allow for any issues that might arise during your project and be realistic with your inputs. At this point in your preparation, it is unadvisable to be overly optimistic or to ignore some critical aspect that could make or break your proposed development. You need to maintain a professional objectivity.

Undertaking the correct research into a proposed development separates the 'cowboys' from the genuine players.

It is an absolutely critical step that cannot be underestimated and will impact on every other element of your development, including the eventual outcome. So don't shortcut on this step, take it seriously, conduct your feasibility with all of the facts and figures to hand and most importantly, don't try to find a silver lining if there simply isn't one there.

INTRODUCTION TO THE PREPARATION OF A PROPERTY FEASIBILITY STUDY

Your feasibility studies should tell you when to proceed and when to walk away, safe in the knowledge that your research is thorough and accurate.

THE NEXT STEP

Congratulations! You now have the key information that will help you lay a successful foundation for understanding how to prepare a Property Feasibility Study.

Unfortunately, I can't include every important piece of information about this very important step in the development process successfully in this guide.

Actually, that would be impossible because each project is unique and the requirements differ based on a multitude of factors. But with this guide, you have the critical information to help you start your development journey that will ensure that your project is a success.

If you are in the process of looking for a building designer for your project, let's talk. I can help you wade through the necessary requirements and make sure you aren't overlooking a crucial factor that could doom your project to failure. I offer a custom **initial consultation** where I will provide a needs and options review and identify the specific requirements pertaining to your project and your available options.

Typically, the **initial consultation** saves my clients thousands of dollars and weeks of lost time, not to mention the stress and headache of getting something wrong.

To read more about the **initial consultation** as well as the price for this service and why it is critically important to your project's success visit my website. If you are ready to talk now, please give me a call.

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Best wishes for the success of your project!