INTERNATIONAL PROPERTY GROUP

THE SIX PILLARS OF PROPERTY DEVELOPMENT

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PROPERTY DEVELOPMENT PILLARS TO GUIDE YOU

The six pillars are designed to give you some essential hints and tips regardless of what stage you are at in your property development journey. You may have already completed some developments. You may be a builder or a general contractor, project manager, property investor, or someone that's got some construction experience. You want to make that leap and do a project of your own.

Whatever stage you are at, the 6 Pillars are here to help.

Is this a great way to make loads of money? No, it's a great way to lose loads of money if you don't know what you're doing. This guide isn't intended to be an exhaustive list of everything you will need to know. Instead, it's aimed at giving you the basics on some of the things you need to consider before you make that leap and get into a property development project.

So, what's it all about? We have six pillars that are fundamental to successful development. So, what are they?

Pillar 1

Site Acquisition

How do you find an opportunity? We're going to take you through the best ways of finding one.

Pillar 2

Appraisal

Once you've identified the opportunity, this is how you appraise it. Is it a good one or not?

Pillar 3

Purchase & Planning

You may need some planning, not in all instances, but we'll go through the process in any case.

Pillar 4

Finance

This section is all about financing your project and accessing resources you may not have thought about tapping into.

Pillar 5

Construction

Some of the main things you will need to do and look after to ensure that your project runs smoothly.

Pillar 6

Exit

Obviously, an essential part of development is the exit. A clean exit is the sign of a well-run project.

Pillar 1: Site Acquisition

In this section, we'll cover three things: (1) What to look for, (2) Where to look for it, and (3) Planning versus no planning

1. THE MILLION-DOLLAR QUESTION: WHAT ARE YOU LOOKING FOR?

A HOUSE THAT SITS IN A LARGE PLOT: You can then look to gain planning consent to build additional homes within the grounds of the plot.

LAND WITH PLANNING: This is a perfectly feasible thing to do. However, you'll see that the figures have to stack up when we get into pillar number two around appraising the deal. Nothing wrong with buying land with planning; it makes life a little bit easier.

LAND WITHOUT PLANNING: Buying land without planning can be anything; a paddock, an old barn, somebody's garden, a garage, a block, or a series of garages. Any opportunity to add some value through the development or building of another property is ideal.

COMMERCIAL BUILDING: If you find a commercial space that's suddenly found itself surrounded by residential areas that could be prime for development.

LAND ASSEMBLY: This is where you approach a community and buy a section of four or five people's gardens. However, this is notoriously difficult because there are several moving parts, including dealing with multiple vendors. Assemblies are not for the faint-hearted.

2. WHERE TO LOOK FOR THESE OPPORTUNITIES?

YOU CAN LOOK ONLINE: There's Right Move, Zoopla, On the market, Prime location, etc.

ESTATE AGENCIES: You can talk to estate agents, both residential agents and commercial agents.

LAND AGENTS: There's plenty of land agents out there. Building a relationship with these people is vital because as opportunities come in, they've got a specific pool of people they will go to. If you get yourself in that pool of those people, it can bring some great opportunities.

MAPPING SERVICES: Services like Landing Site and Nimbus, to name two. You have to pay for these services. But you can go and search for things yourself as well.

PROPERTY NETWORKING MEETINGS: There is no substitute for getting out there and meeting people. You have plenty of property networks to choose from. I won't mention them here because there are far too many, but there are many quality meetings up and down the country.

NON-PROPERTY NETWORKING: Go and meet people. You never know who owns what and who might have a slice of land or a plot somewhere or an abnormally big garden that they might want to monetize somehow. So, just get out there and talk to people, family, and friends. Tell them what you do, tell them what you want to do.

FAMILY FRIENDS (YOUR OWN NETWORK): It's incredible who and what you'll find within your own network. So that's always a great resource.

SOCIAL MEDIA: You can run ads or just post about what you are looking for on Facebook, Instagram, LinkedIn, etc. The more people you tell what you're doing and what you're looking for, the more opportunities will come to you. People aren't mind readers. You have to convey your plans and intentions. Someone's not going suddenly knock on your door and go, "Hey, I've got a great opportunity for you because I'm pretty sure you were thinking of getting into property development."

3. PLANNING VS. NO PLANNING

Do you want to buy a plot with planning or a plot without planning? Now, there are pros and cons to both. If you can buy something that's already got planning consent, it's going to be a little bit easier because you don't have to go through the whole planning process.

You will almost certainly have to pay more money. Typically, someone's already gone through the time, effort, and trouble of engaging with some professionals to draw up plans and go through the whole planning process.

Buying it without planning gives you an excellent opportunity to add value by going through the planning processes. You can add an awful lot of value, but it can also cost you quite a lot of money and time. It is also difficult to finance. Having an option agreement or a subject-to-planning deal with a landowner can be invaluable.

Pillar 2: Appraisal

An appraisal is broken down into two areas: **(1) the viability of the site and (2) a high-level financial assessment of the site.** These variables give you an overall evaluation of whether a plot is a good opportunity for you or not.

So you've found your site, this is the point where I would urge you not to get too carried away. Keep a cool head, look at things from an analytical point of view, and don't get emotionally swept away. You need to make these decisions based on fact rather than how you feel about something. So that's the one thing I would say that is very important at this stage. That's really what the appraisal is all about.

1. SITE VIABILITY

SITE VIABILITY: We're looking for things that are just going to kill your project outright. So, things that are out and out show stoppers.

ACCESS: If you don't have access to a site, you've got no right of way over it. How are you going to get on there? It's walkaway time. It's going to kill it. Be sure to check out what you have and what you don't have.

FLOOD RISK: Flood risks are zoned from one to three. Zone one is the least likely to flood; zone three is most likely to flood. Not saying that you can't do a project in zone three, but it's worth being aware of the risk because there's a whole heap more work that you need to do. So, check out what area you're in for flood risk.

PLANNING HISTORY: Go to your local authority portal. You can search and see if it has had any applications in the past? If so, what for? What was the outcome? It's just great information. There may be some things that appear that would be a bit of a warning sign for you. Always worth checking.

TPO'S (TREE PRESERVATION ORDERS): Does it have any? There are two reasons you should know. One, you can't cut them down. You'll get fined heavily for chopping a tree down that's got a TPO. Plus, they're quite challenging to move, so if you have them on the site, it's not an out-and-out showstopper, depending on where they are. But again, it's just something to be aware of.

SITE DESIGNATION: Is it greenfield? Is it brownfield? Is it greenbelt? Is it in a conservation area? Again, you need to be aware of these things because they will influence what you can and can't do.

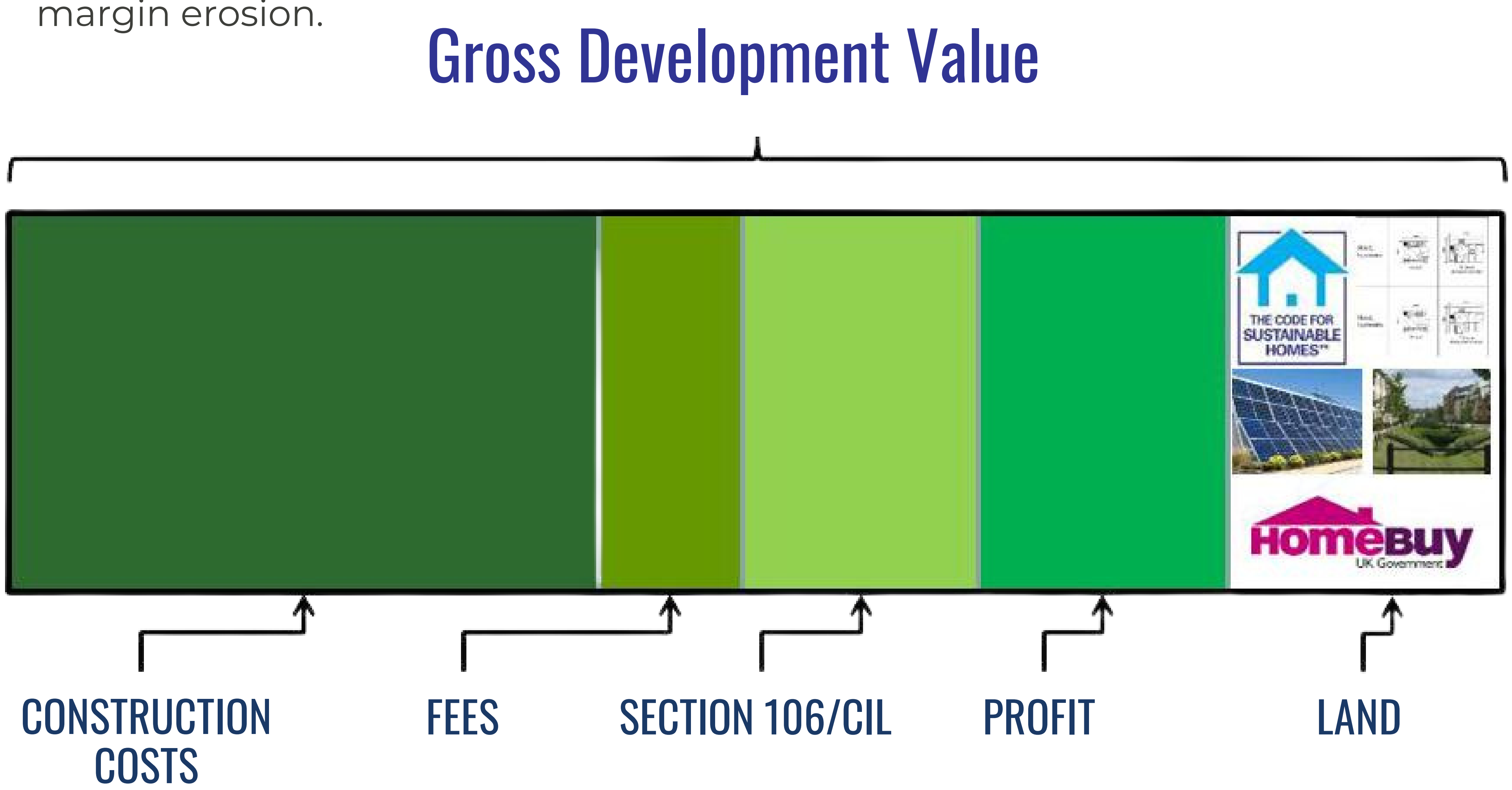
2. HIGH-LEVEL FINANCIAL ASSESSMENT

We work backward from the **gross development value** commonly referred to as the GDV. In essence, what's the site going to be worth when you've finished it? It doesn't matter whether it's a block of flats or houses. It's just what is the end value of what you are developing. We're not going to get into the nuances of the market, which is a more complex subject for another day. This is just very simply looking at the GDV and working backward.

So, take some guidance on it. You can speak to few local estate agents, or you can look up what similar properties have sold for in an area of a similar size. Maintaining a common-sense approach to it is critical, and come up with an end value.

You need to go and get a good steer from someone who is an expert in construction to either give you a quote or give you a per square meter price. You can include any professional fees, architects, etc. So, whether it's got a section 106 or a community infrastructure levy payment against it, you'll need to find out what that is. That can be a significant amount of money. Again, not going to go into that here. If you are interested, explore: What is section 106 and CIL. You've then got the most critical thing to knock off: **your profit.**

Essentially what are you looking to make out of this project? I would recommend that you want to be looking to make at least 20 to 25%. There is a reason I say that, which will become apparent in pillar number four. Mainline lenders want to make sure that it's a profitable project and allow for some margin erosion.



So very simplistically, once you've knocked all those off, whatever you're left with is whatever you can afford to pay for the opportunity. Now, this may or may not agree with what the landowner or the vendor wants for it. If it does, great, you can go and pay that. Happy days, move on. If not, then it allows you to go back and start negotiating.

You can use it as a tool for negotiation. If your miles out, then it's just not going to work; walk away. That's a very rough and ready assessment. You can then go back into it in more detail if the numbers are pretty close, but from a very high-level point of view, it's a bit of a sniff test. Does it make sense, or doesn't it?

If the project doesn't seem viable after doing this brief high-level assessment, it is probably advisable to walk away and look for an alternative project. But, you have to kiss a few frogs!

Pillar 3: Purchase & Planning

Let's talk about the purchase first. There are a few different options:

• Open market sale• Sale with Overage agreement
• Joint venture or partnership • Option agreement
agreement

OPEN MARKET SALE: This is where the vendor's got a price tag attached to it. As long as you've done your appraisal and the numbers make sense, you can go ahead and make an offer and purchase the site.

If it's a little bit tight, you may choose to go open book. It's become quite common for developers, mainly if they think the landowner is asking for too much money. They'll sit down and go through their appraisal and say, "Look, this is where we get to. This is where we are taking a risk, and there's a market risk as well, or what the land is worth." So, it's about negotiation and working with the landowner to devise a sensible deal that suits both parties.

OVERAGE AGREEMENT: If you're in a rising market, you might well want to say to them, "Look, this is the GDV as we see it. If it goes up dramatically, you agree to sell me the land for X price. If I get more than expected at the end of it, I'm more than happy to split the uplift in the gross development value with you. It's a good compromise that can work in certain circumstances.

The other thing is to do it on an option agreement subject to planning. If it doesn't have planning, and you're taking a bit of a planning risk. This is a way to reduce the risk and is preferable to buying it speculatively and then not being able to get planning. You may also wish to consider a joint venture or partnership agreement, i.e., when you work with the landowner. They become your business partner for the project putting the land in. You will do the development, and you split the profit. It's a great way to get a project with limited funds and can be a good solution for the landowner as they get more money than simply selling the land.

Having a good agreement is key for this type of deal.

PLANNING: This isn't designed to cover everything about the planning process but to give you some general tips. The process, in very simple terms, is:

• Pre-application
• Full application
• Consultation period

DECISION: The result could be Yes, No, or Yes with conditions, and then you'll have the right to appeal. Very simplistically, that's the planning system. Is a pre- app always a good thing? A pre-app is worth doing if you want an excellent steer before spending lots of money on in-depth plans. Our planning tip is don't skimp. Engage with a good architect, and planning consultants are worth their weight in gold depending on the site. They know their way around the local planning and will have good long-standing relationships. They see what projects they've been involved with before, and they'll give you a really good steer.

I know on paper, particularly if this is your first development, it can look like a costly addition to a project. But trust me, I think if you try and do it without the right professional's help, you're asking for trouble.

So, don't skimp is the tip.

Pillar 4: Finance

We've talked about it very briefly. To get to this stage, you would have spotted your opportunity, done your viability, and light-touch high-level financial appraisal. I don't want this to be massively complex, so this is just to give you some of the fundamentals of what lenders will be looking for.

What you need to have considered and what you need to have done before you approach a lender. Whether you are going to use another broker or you are going to use our services, it matters not; you'll need to have considered this information.

APPRAISAL SHOULD INCLUDE

- Gross Development Value (GDV)
- Purchase costs
- Build costs
- Contingency
- Professional fees
- Warranties
- Reports – valuation, site investigation
- Marketing fees
- Any other costs
- Legal fees

GROSS DEVELOPMENT VALUE (GDV): We work backward from this. At this stage, you will have done lots of due diligence and considered square footage prices of similar properties in the same/similar area to the same spec.

You would have considered what they've been sold for either using online tools and resources or approaching several agents. From a lender's perspective, they will want to see that you've done your homework, you've done your due diligence, and the GDV makes sense. We can't just pluck a figure out of the air.

It has to be based on fact, and they will want to see evidence of that as well. So that's step number one.

BUILD COST: Your build cost is more in-depth than the high-level appraisal completed at the early stages. It will need to have been fully costed out by a QS (Quantity surveyor) or by the construction company/builder. We then have to build a cash flow forecast over the timeline of the project. The time frame is essential and must be justified.

Following this, we plan the cash flow according to when you would require to draw the funds down. This part is not an exact science, but it gives a good indication. So, if it's an 18-month project, we need an 18-month cash flow. We help our clients with this process to present a well-thought-out proposal to the lender.

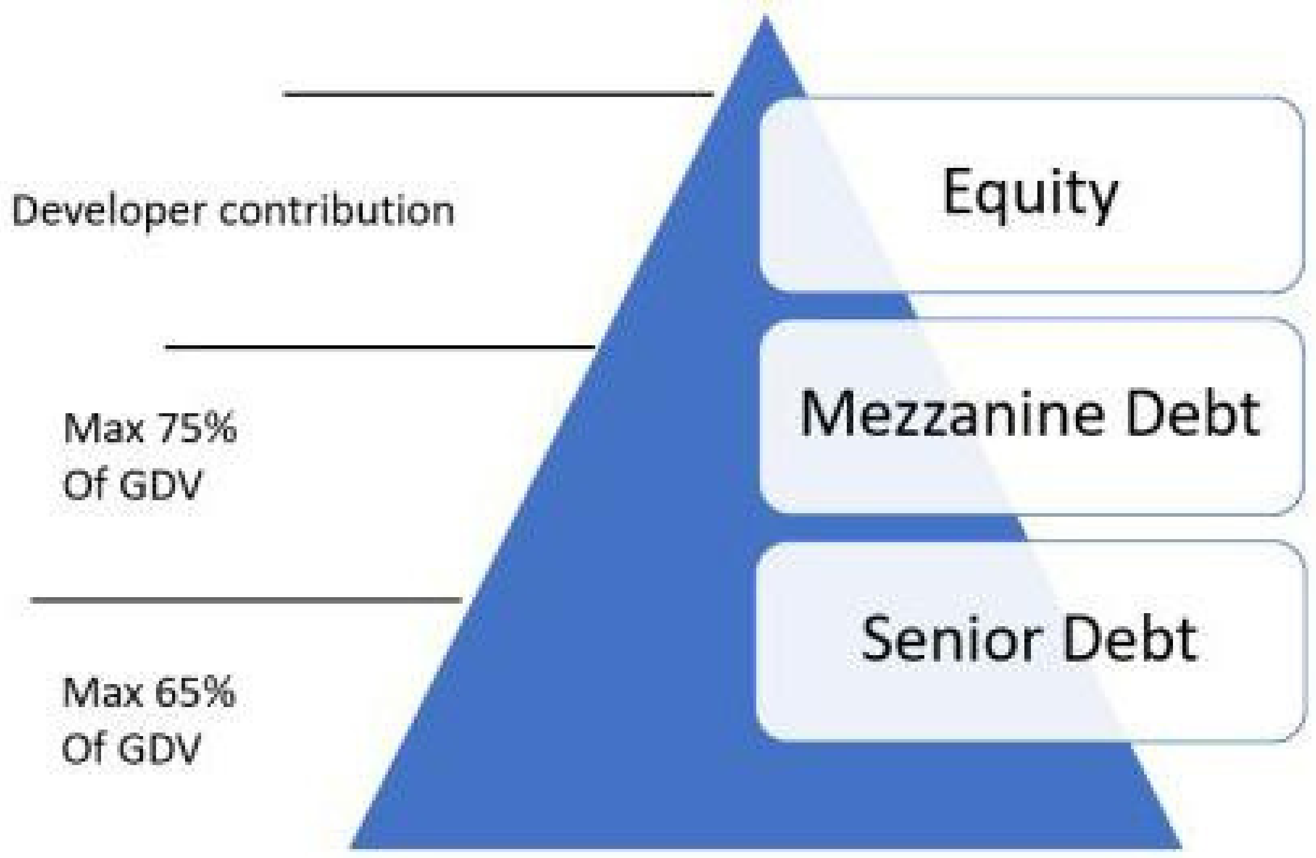
DEVELOPMENT FINANCE: This market is made up of many lenders from high street banks to private funds. The rates on offer and loan to GDV ratios will differ from lender to lender along with their appetite for different projects. There will also be differences in minimum loan sizes and experience

requirements. There are many factors that will determine the lender that we will select for a project, for example:

- Developer experience· Timeline
- Project type and scale· Team experience
- Area of the country· Main contractor or
- Method of constructionself-managed

To give an idea of a typical deal lenders will cap the development facility at 65% of GDV or 80% of total project cost, generally on whichever is the lower. Then they will net off their fees, interest and the build cost and whatever is left is called a day one advance. The day one advance is the lenders contribution towards the land purchase.

If this is not enough in some circumstances, you can top up with mezzanine finance.



We regularly get contacted by potential clients that want to know how much they will get towards the land purchase. As you can see from the above this is not an exact science and will vary project to project. In simplistic terms that's how development finance works. There are other type of finance and solutions depending on the project. We are always more than happy to have a look at any project and give you sone guidance on the best route for you.

THE BASICS: You'll have needed to have given some rigor to your gross development value. This is massively important. Another point to note, if you're using a mainline contractor, the lender will add a contingency in. It's prudent to do that, and if you haven't done it in your figures, the lender will add it anyway.

This applies even if you're on a fixed-price contract, and they will generally add 5%. If you manage the project yourself and all the individual trades or you have a project manager, the contingency will typically be 10%.

The lender will want to see the financial records of the builder or contractor to see how well they've been performing. That's standard practice. We will also require details of previous projects in the form of a CV. The CV should show projects carried out in the past covering similar schemes. It's about de-risking this for the lender. So, the builder's CV's important, as well as your CV as the developer.

EXPERIENCE: What have you done in the past? What makes you qualified, in essence, to deliver this project successfully? We are happy to sit down and consolidate all of this information together. If this is your first development, having the right team in place is vital so that you can leverage their experience and knowledge.

I've covered the three key areas you need to consider around rigor and due diligence on your gross development value number. The same is around your CV for your builder and your build numbers. Also, give some thought to your CV as well and track record. They're the elements that the lender will focus on, not forgetting, of course, a viable project.

Pillar 5: Construction

The construction phase is split into two areas: (1) Planning and (2)Building. There will be some differences, whether you will take on the role as project manager and main contractor and manage all the individual trades yourself. Or whether you are as a developer going to engage a mainline contractor, which will come with a project manager on a fixed price contract.

PLANNING: The first point to consider in the planning phase is your team. Let's just say that you are project managing it yourself. Make sure that you've got your supplier selection all done. You want to make sure you've got all your contractor selection done. What bricklayers you're going to use, what plasterers etc.—do your due diligence, ensuring their quality is good.

There's a price element you need to make sure you bring this in on budget. You also want to make sure that you've got the right quality in place as well.

Finally, make sure you've got your team in place, or put that under team management. Do you need to get utilities to the site? You want to get engaged fairly early. See what choice you've got in the area, who the utility suppliers are. The earlier, the better before you even start the build. You want to make sure you've engaged with them because A) They could be very costly, and B) Timeframe wise it can cause massive delays.

BUILDING: Then we get into the build itself. This will differ whether I'm talking to you and you are already a builder who has decided to become a developer. If your skills lie elsewhere and this comes as news to you, this is meant to give you a little bit of an overview and just a few things to look out for. When you're in a build, it's about controlling the cost. You've committed to a budget for your finance.

You've done a cash flow analysis. You need to make sure that you start to bring this in and deliver it, so you need to focus on controlling the cost. This is so important as it has an impact on your finance as well. Monies are drawn down in arrears on works completed. So, time-wise, time is money, essentially.

You want to control your cost, but that brings me to my next thing: speed. You want to make sure that you're doing these things promptly. Delays, two days here, three days there, all add up, and time equals money. The old phrase, but it rings very true in this game; time really does equal money.

However, the caveat to those two is that never sacrifice quality for the first two. You need to have your eye on that. If you're not doing, or if you've not got trades on-site doing things of the required quality, you will just get problems later on. We talked a lot about GDV and what your site's going to be worth. Your GDV will be affected if you do not build and present a quality product.

I don’t mean putting in marble floor tiles and granite worktops. I mean, in terms of the actual fabric of the building, make sure it’s all of good quality. Depending on the area, what end of the market and what you’re building will determine the finer points, your finishes, what kitchens and bathrooms you put in.. Choose the appropriate fittings and fixtures for your market.

But when we talk about quality, we’re talking about build quality. Make sure that you’ve got all the certifications in place at the construction end. Again, if you use a mainline contractor, you should ensure that your structural warranties are in place. If there are any defects to rectify, that can be a significant cause of disputes, so make sure you spot them early. If there’s anything that needs rectifying, make sure it’s rectified before staff hand it over. Remember it’s your reputation at stake.

Pillar 6: Exit

Most developers build to sell, which is probably the most popular strategy. However, you can also build to rent; this simply means you build to hold and then rent the properties. This strategy has become incredibly popular because you can add value during the development phase and retain the properties at the end. Regardless of which one you’re doing, there are commonalities amongst them both.

BUILD TO RENT: When you’re raising your development finance, arrange an agreement in principle for the term loan at the end (Mortgage). This has two advantages. It makes your development finance a little bit easier because there’s a defined exit. The development financier knows what their exit is because there’s an agreement in place. It just gives that known exit point.

Point two is that it will save you money as you have no sales cycle to worry about. However, you need to find some tenants, so it would be worth using a good letting agent. However, consider getting some CGIs (computer generated images) done so you can start to market your properties before you get to the end of the construction phase.

If you're going to use an agent, make sure you engage with them early, and give them quality marketing collateral, such as CGI's, which produce a nice brochure or a website. Quality tenants equal less hassle. It depends on how big the development is and how big your budget is, of course. But all these things you need to start thinking about at a very early stage, not when you get right to the very end.

BUILD TO SELL: Build to sell is very similar. One thing I would say is to engage early. CGI's are great. The technology has come on leaps and bounds. You would struggle to tell some of the CGIs you see now apart from actual photos; they're that good. This enables you to start to market your product long before you get to the end of it and compresses that time period for your marketing and sales effort at the end.

Selling off-plan, again, that's part of having the computer-generated images you can sell off-plan. Create a brochure, create a website. You want it to reflect the quality of the development. Put together a very nice booklet. Technology has become quite a bit cheaper now, but there's no substitute still for a very nice glossy brochure. It works incredibly well.

Make sure you work with the right agent. If you're building entry point apartments, for instance, there's no point in appointing an agent that's used to selling two-million-pound country homes, and the same is true in reverse. You want to make sure that you pick an agent that's used to representing the kind of properties that you've got. The kind of clients they have on their books would be the kind of clients you're looking for, so don't be shortsighted or think maybe I'll use this agent because they might be a little bit cheaper.

It's a false economy. Pick the right agent for **the job. Engage with them early, discuss** what their marketing tactics will be. It's a bit of a joint effort at this stage. You want to make sure that the units are sold. Give the agent as much ammunition as you can to go and get the right price for your hard work. You want to sell them as quickly as you can at the correct prices so you can retain a good margin for all your efforts.

INTERNATIONAL PROPERTY GROUP

WE WOULD LOVE TO HELP YOU!

What do we do now? Hopefully, it inspired you to go out and find your opportunity. You might have already found your opportunity.

The one thing I would like to offer you now is that once you've found your opportunity and you want to go through that six-step process. We are here to help.

Whatever stage you are at, this is where we can help and add value. We offer a free consultation to evaluate your project and will give you guidance on your funding options. If you decide to work with us on your journey, we'd be absolutely delighted to help you.

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