6 PROPERTIES IN 6 MONTHS
INVESTOR SHARES SECRETS

PROPERTY CYCLE REPORT
BOOM TIME FOR DARWIN

STILL ONLY $8.95

www.spionline.com.au

# SmartProperty Investment

MAY 2012 $8.95 (INC GST)

# INVESTOR STRATEGIES REVEALED

## We uncover the winning strategies of four multi-property investors

RENO
**How to turn HUGE PROFITS**
From renovator to small developer

SPOTLIGHT
**Population BOOM**
Follow the numbers to Mackay, QLD

INSIDER SECRETS
**FAST TRACK your first purchase!**
What to know about co-ownership

ISSN 1838-8612
05
9 771838 861002

**PLUS** 10 PROPERTIES IN 10 YEARS - PART 2!
Picking the right property to kick start your portfolio



PART 1 OF 2

# SPLITTING PROFITS

## STEPPING INTO THE DEVELOPMENT SCENE



With big profits to be made, it's no wonder renovators often consider stepping into the development space. But going from a small renovation project to building a block of units can be a daunting task. In this first of a two-part series, Jennifer Duke looks at the 'splitting' technique and discovers why this is a perfect first step towards huge returns

Large blocks of land occupied by just one small house are prime pieces of real estate for those eyeing a slightly more creative form of investing. These plots are potential subdivisions (or 'splitter blocks' as they are sometimes called in NSW and Victoria).

Provided planning permission is granted, a residential plot can be split in two, often resulting in big profits for the investor.

While this is effectively a development project that might seem like a daunting prospect to an investor, cutting a block in half without even touching the building side of things can quickly generate around $50,000 in profit.

According to Renovating for Profit's director, Cherie Barber, subdividing is a "natural progression" for renovators seeking a more lucrative project.

"The big misconception with development is that you have to have millions of dollars to be a property developer – you don't!" she says. "Any normal mum and dad investor can be a property developer; you don't need to start that high up.

"It's like a loaf of banana bread. You can sell a whole loaf for $8, or you can slice and dice it into eight slices. You can then go and sell each slice for $3.50 each, at a total extra profit of $20."

> **"THE BIG MISCONCEPTION WITH DEVELOPMENT IS THAT YOU HAVE TO HAVE MILLIONS OF DOLLARS TO BE A PROPERTY DEVELOPER – YOU DON'T!"**

While the strategy sounds simple, investors need to be prepared to go out of their comfort zone to find the best opportunities.

Property Secrets' director Paul Giezekamp explains that the key difference between developers and typical investors is the technique each uses to turn a profit. Developers, he explains, generate their own value, rather than waiting for the market to move.

"You can see how developers have created a more advanced technique than standard property investors as investors sit there and wait for capital growth whereas developers go and make their own capital growth," Mr Giezekamp says.

He acknowledges, however, that making the move into property development can be difficult, as well as risky, and requires significant pre-planning.

## FINDING THE PLOT

The first step in sourcing a plot for subdivision is to limit your search to a specific group of suburbs, a part of the process that is often ignored and which sees many developers come unstuck, says Ms Barber.

While knowing the area and the likely tenants or buyers is essential when renovating, it is equally important when block splitting due to the differences between local councils and their zoning requirements.

Mr Giezekamp explains that while the requirements for a block differ vastly between different postcodes, there is a simple way to determine whether a suburb is a likely candidate for subdivisions.

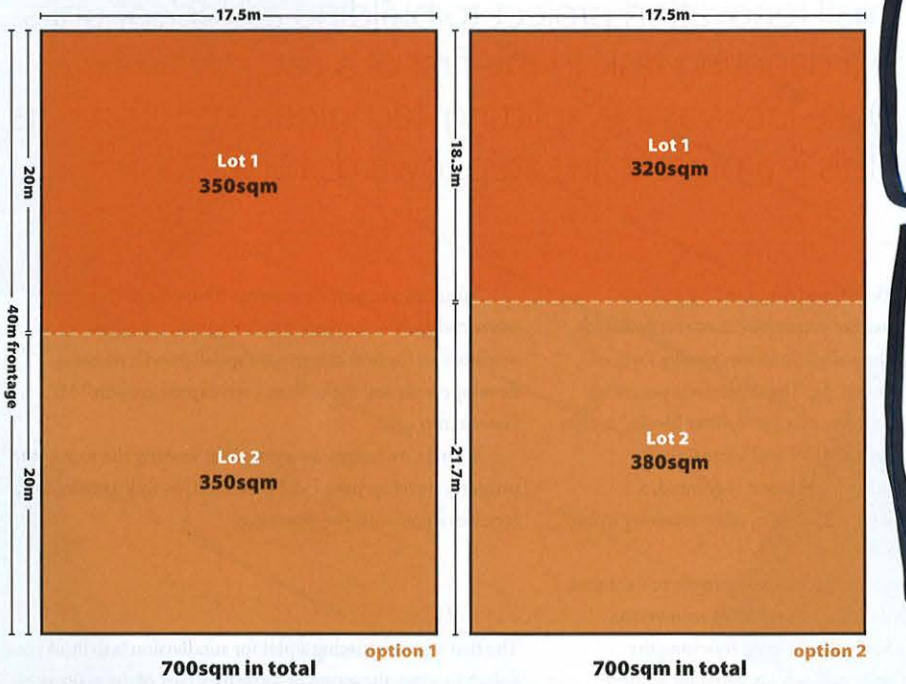
"A good indication of where there's a chance to subdivide a block is if there are already properties that are being subdivided into duplexes or triplexes on the streets in the surrounding suburbs," he says.

"If none are happening in the area then there's a good chance you probably can't do anything other than replace one house with one other. You need to be looking for recent activity."

Investors who think the way to look for potential subdivisions is to walk the streets or read the real estate listings are very much mistaken, according to Ms Barber.

"When these properties come onto the market it's generally too late," she says, adding that the savvy investors are the ones who work smarter, not harder, to find the right property.

## OPTIONS WITH MINIMUM BLOCK SIZES




*Source: Investorsedge*

When Ms Barber spoke to *Smart Property Investment,* she had an aerial map of the Sydney suburb of Balmain on her computer screen: "I just look over the area like a bird," she says. "Splitter blocks are really easy to spot.

"No potential ... no potential ... this one here has huge potential," she says, pointing at the screen and to a prime example of a splitter block, a large plot with a small house. "You have to look for properties with under-utilised space."

Using this technique to source likely plots she has made profits in excess of $100,000.

Once a site with potential has been spotted, an investor should look for the 'setbacks'. Setbacks – the council requirements that dictate how far a dwelling must be from the edges of other dwellings and the boundaries of the property – can be clearly seen in an aerial photograph. Most suburbs are uniform in this respect, and clear lines can be seen at the frontages of each dwelling on the street.

Ms Barber suggests that if the site is determined to be appropriate for development, the investor should be pro-active – simply go round, knock on the door and see if the owner is interested in selling. If they aren't home, don't give up: "Every time I handwrite a letter, at the very minimum I get a phone call back from the owner saying, 'thank you, but I'm not interested'.

"It's worth handwriting a letter for really good deals. People respect that; if it's photocopied, then it goes directly in the bin."

Using this method, Ms Barber has had a 1-in-20 success rate in getting the owner on board.

Those who are not keen on approaching houses not yet on the market may want to consider using a buyer's agent who has experience with developments – at least, to begin with.

Malyshka Residential Property Developers' managing director, Grant Muddle, recommends that investors surround themselves initially with experts who can help with their first project, including sourcing of the property.

"Doing it yourself is fun and exciting, but it can be risky," Mr Muddle says. "You should try to learn first time around by watching those with experience.

"While it won't earn you the same the first time round, because of the fees, the education [you receive] will leave you in better stead for the future. You need to have a better understanding of the process than you would with standard investing to make it work."

Director of Stonnington Conveyancing and Melbourne Buyer's Advocates Paul Garson also believes that using experts from the field is one way in which investors can learn the ropes of developing.

"You don't want to buy the wrong property and have to re-sell it because it's not profitable, so if it's an auction you have to do all that research really quickly," Mr Garson says.

"Sometimes it's best to consider a buyer's agent with experience in finding these properties."

### PLANNING THE SPLIT

Once an appropriate property has been sourced, permission from the local council to subdivide the plot needs to be sought. The length of time it takes to obtain approval will vary from council to council – and according to Mr Garson, investors should still be prepared for a 'no'.

"In a lot of cases they will end up saying, 'yes'. You just have to jump through more hoops and do more research and give them the extra things they want," he says.

Mr Glezekamp says it can take a significant amount of time, especially for a first time developer, to successfully work their way through the council.

"Different zoning codes and different zoning labels, as well as each council having their own rules and regulations, can make it difficult for first time developers," he says. "Some are looking for large frontage, while others are looking for specific land sizes, so you really have to be diligent in speaking to council first."

Mr Muddle adds that once an application to split a block has been lodged, on average it takes six weeks for the application to go through, as well as two weeks for a new titling and then even more time – to the tune of six or more months –should the investor wish to go ahead with an entire building project.

Investors should be wary of the holding costs they will incur during these periods, and while Mr Muddle acknowledges that short-term leases for tenants during the splitting process are possible, he explains that getting permission as quickly as possible is very important.

"Building requirements depend on the zoning of the land," he says. "You need to deal with council and get an understanding of their vision if you want it to go through as quickly as possible."

Talking to town planners and getting to know the local council are the two most important steps an investor can take to ensure a block is actually suitable and will obtain the necessary planning permission.

"You need to do a full DA [development application]," says Cherie Barber. "These range from anywhere between $1,500 and $2,500. It takes all the measurements of your house and the neighbours' [property]. Including extra costs such as checks and engineering reports that might be required, fees can scale up towards $10,000 or $15,000.

Depending on which state the property is in, the requirements will also vary. In Victoria, for example, an investor requires two development permits: a planning permit and a subdivision permit, says Mr Garson.

"It takes a long time and there can be a lot of fees, red tape, rules and regulations, and many investors have no idea about this kind of thing," he says. "It often puts investors off looking at developments."

However, for those who are willing to push their development through, the returns can considerable.

## FINANCING THE PROJECT

While 15 per cent to 20 per cent of investors consider developing, according to Mr Giezekamp, the financials are not always in their favour. Because of the significant holding costs that may be involved, an investor should ensure they do their sums before purchasing a property.

"Finance is relatively simple, but since the global financial crisis, banks have been tighter," says Mr Muddle.

However, investors with little to no cash for a deposit may find this strategy easier to implement than a renovation. Extended settlements and option agreements may be possibilities and Ms Barber explains that these are still accessible.

"I believe that if you are limited by cash then getting into a small development is actually easier than getting into a renovation project because one of the core things that people use is 'options' on small development deals," she explains.

**657**

**THE NUMBER OF SUBDIVISION PLANS LODGED IN VICTORIA, FEBRUARY 2012**

(DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT)

**574**

**NUMBER OF SUBDIVISION PLANS LODGED IN VICTORIA, FEBRUARY 2011**

(DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT)

**982**

**NUMBER OF SUBDIVISION PLANS LODGED IN WESTERN AUSTRALIA, FEBRUARY 2012**

(LANDGATE, WESTERN AUSTRALIAN LAND INFORMATION AUTHORITY)

**879**

**NUMBER OF SUBDIVISION PLANS LODGED IN WESTERN AUSTRALIA, FEBRUARY 2011**

(LANDGATE, WESTERN AUSTRALIAN LAND INFORMATION AUTHORITY)

"Options allow investors to gain access to a property despite their not having legal ownership. This ensures they have the ability to try and re-zone the land to a higher and better use through a development application.

"What people do is go and get an option over a $700,000 site, they'll go and get an option fee of $7,000, then they'll get it DA-approved by going to council.

"They generally renovate the house to the front of the block and then what they do is when they get it approved they get it re-valued. And when it is re-valued, it's of a higher value because it's for two dwellings not one."

The property may now be worth $900,000, and can be on-sold to another developer or builder.

"If you're buying something for $700,000, you'll take away the option fee, the $7,000, the council process might take $20,000 and then the stamp duty when they settle, but they are still about $100,000 ahead depending on the values in that suburb," Ms Barber says.

For the most profitable venture, investors should be looking to up their game and do the entire build on the subdivided section of the land.

One splitter project Ms Barber undertook as a novice in Sydney's Balmain had her on-sell before the build took place.

"I made a good profit and it was one of my first subdivisions, but I'm kicking myself now I've seen what profit I could have made," she laughs. However, given her lack of experience with builds at the time, she probably made the right decision.

Investors often seriously consider development as part of their property strategy, Mr Giezekamp explains: "Looking at something small to start with is definitely the best bet," he says. "You can look at selling the back block and keep the front for around $15,000 for council approval costs and alterations. After this, you can then start looking at duplexes – but that's stage two or three."


Present this ad for FREE ENTRY*

monthly network meetings

creating millionaires through property

ultimate achievers

knowledge › action › property

SYD MAY 7TH, JUNE 4TH, JULY 2ND
QLD MAY 8TH, JUNE 5TH, JULY 3RD
VIC MAY 9TH, JUNE 6TH, JULY 4TH

SOME CONDITIONS APPLY. VALID FOR THE FIRST MEETING ATTENDED ONLY. COST WILL RETURN TO $12 PER MEETING AFTER COUPON USE.

for more information visit www.ultimateachievers.com.au

## MAXIMISING THE PROFITS

Block splitting is naturally more profitable in some suburbs than in others. The best returns tend to come from the suburbs in which splitting is most difficult. While subdividing a plot can yield results in both metropolitan and regional areas, the suburbs with the strongest results are in inner city areas with higher density living.

"You can make a development profit right across the market but you have to know the area and it comes back to your investment equaling your return," Ms Barber says. "In Mount Druitt, the properties are cheaper to buy; there are lower costs; and the councils are less fussy and not as hard as the inner city, so generally your outlay is lower but the profit margins are also lower."

Higher value properties in the city tend to be subject to more complex council regulations due to the generally smaller dwelling sizes, and they may require more reports and assessments.

Development deals can be done in outer suburbs such as greater Sydney's Penrith, however, where Ms Barber has seen successful splitter blocks go ahead, but the margin will be lower. As a simple way to gauge profit, the city's inner ring and middle ring have a higher to medium-sized margin while the outer suburbs have a lower entry level cost – resulting in greater and smaller profits respectively.

The general cost of creating a subdivision does not change, regardless of where you subdivide, so splitting a block in a suburb with an average property price of $2 million and splitting one where the average property price is $260,000 will both have the same subdivision costs, but the gross profit margins are obviously bigger in the higher priced suburbs.

Another way to maximise the block's potential is to subdivide and only sell the back plot, keeping the front as a positive cash flow property. "If you have a decent sized block, you can easily subdivide that and keep the house on the front," says Mr Muddle.

Investors typically favour this strategy for suburbs where rents are high and vacancy rates are low.

Many of Mr Muddle's clients intend to turn their properties into cash flow positive investments using this approach.

Investors should also consider combining the splitter with a renovation to pull out the maximum value from the entire property, particularly when the plan is to keep the front house.

## SPLITTING A BLOCK VS. SPLITTING A BUILDING

### SPLIT BLOCK




**Purchase price $420,000 + ($15,000) est. splitter costs**




**Selling price of whole block: $470,000**

### SPLIT AND BUILD

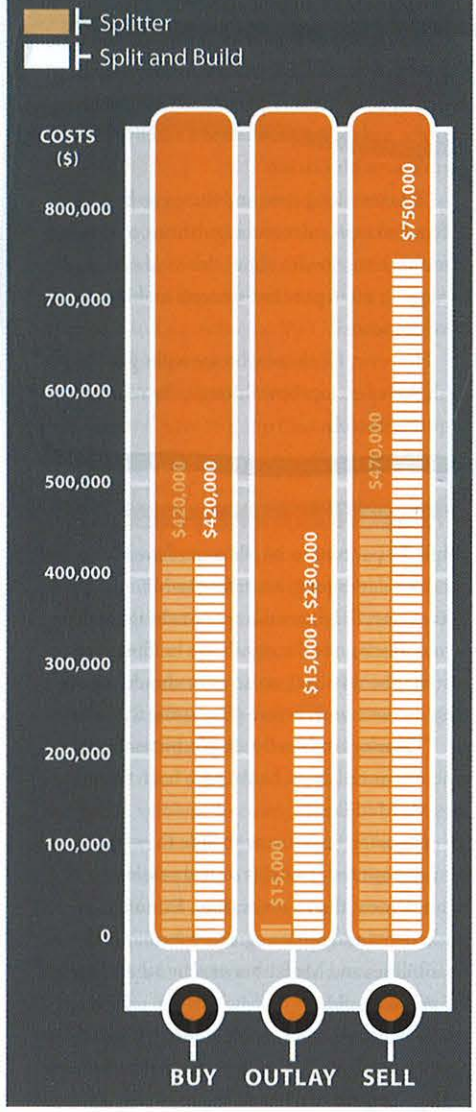



**Purchase price $420,000 + ($15,000) est. splitter costs + $230, 000 (building cost)**




**Selling price of individual blocks: $375,000 each**

### PROFITABILITY OF SPLITTING VS SPLIT AND BUILD




One renovation Mr Garson saw undertaken brought the value of the front property alone back to that of the entire site prior to the subdivision.

"They sold the house for well over $1.17 million," he recalls. "The build and renovation cost about $450,000 and they sold the front house with quite a bit less land. The existing house with a tiny parcel of land was then worth basically what they bought the entire property for in the first place.

"They basically got the land on the back for free."

"It was massively profitable, with more than $500,000 of profit, and they made a little on the house by tarting it up, including a new driveway." ■

***Next month,* Smart Property Investment *looks at how to take these further steps to generate twice the profit from your purchase with a simple build on the subdivided block.***