Developing in Today's *market*

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Developing in Today's Market

How to take advantage of today's market

Being a smart property developer often means adjusting your strategy to take market conditions into account. It means being open to alternative approaches, knowing that a logical opportunity will usually present itself so that you don't have to miss out on what could be an excellent venture.

In today's market, mum and dad investors may be walking away from potential moneymaking projects simply because they run the numbers on their land with a view to selling now, when in fact a Build & Hold strategy could be an excellent option.

By building and renting out development properties, and taking a longer-term approach they could potentially maximise or improve their project profit. Taking advantage of favourable building conditions, while at or close to the bottom of a market can actually provide some great benefits.

The Build & Hold strategy is a tactical, tried and tested approach that means you can take advantage of the positives - without risking the family farm.

Why build now?

1

Building and construction costs in WA fell by roughly 25 per cent last year. If you're building three homes, this could equate to savings of between $50,000 and $100,000 compared to a 'normalised' market.

2

Interest rates are low, which could lower the cost of holding the properties and renting them out, rather than selling them straight away.

Borrowing $650,000 at say 5% per annum to build a quality triplex would mean interest payments of around $32,500 per annum.

Given the soft WA rental market, renting the property cheaply to maintain occupancy is a valid strategy. Even at a ridiculously low figure such as $250 per week per unit or $39,000 per annum fully occupied, less any adjustment for vacancy and other costs, a well-located property is quite cost effective to maintain.

Common sense says that it would take a long time and fairly hefty holding costs to offset any build cost saving in a quiet market.

3

Holding the units and selling them down one at a time in separate financial years could assist spreading any taxation burden from development profits as well as taking advantage of any market improvements in property prices over time.

Build & Hold advantages

Regardless of what the real estate market is doing, many property developers build with the intention of holding the properties and renting them out.

Here are some of the reasons why this works particularly now:

- ☑ You're not trying to predict market growth or beat market fluctuations.
- ☑ There may be tax advantages.
- ☑ You're not under pressure to get in and out. You can stagger sale of the properties should you wish to.
- ☑ You could save thousands of dollars if you build when construction costs are low.
- ☑ While your accountant will be able to give you the full picture, potentially there are greater tax concessions if you hold onto a property for more than 12 months.
- ☑ Experience has shown that the property market runs in cycles, and that an upswing will usually follow a downturn.
- ☑ Renting the property out even at low rents may cover the majority of your holding costs.

A quick summary of the strategy

In an ideal world, you would line up your finance and finalise your development budget before you purchase a development site. Doing it this way, you know exactly what you can borrow comfortably and what it will cost to build before you commit to a particular block of land.

Once your properties have been built, you'd look to hang on to them and stagger the sales across a number of years.

If you think the market is rising, then you may want to hold on to the properties longer and sell later.

Already got a block?

Here are a few things you might want to consider:

- ☑ With stricter lending criteria on the cards for investors, acting now could mean your project is looked on more favourably than if you wait.
- ☑ When forecasters predict better times ahead for the real estate market, it's an indication that things are about to start looking up.
- ☑ Taking advantage of low building costs and a ready supply of trades now could save you time and money down the track.
- ☑ A development project typically takes 18 months to 2 years, from start to finish.

The advice above is general in nature and should not be relied upon in isolation to make a decision. An Accountant or Financial Advisor will be able to provide specific based upon your personal situation. A good tool for investors on the costs of holding investment property can be found at www.moneysmart.gov.au/investing/property.

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