EquaAcademy

10 THINGS YOU MUST DO

To Avoid Costly Mistakes When Analysing Any Property Deal

Finding a property deal that looks like a winner can be truly exhilarating.
That's where all profitable property developments start, right?
With finding a great deal.

But, how do you know if the deal really is the right one for you?

What due diligence do you need to do before getting swept up in the excitement of a new project and how do you make sure the deal really is as good as it looks?

Doing your due diligence is critical, so we've put this quick checklist together of 10 things you MUST do to avoid costly mistakes when analysing any property deal.

1 HAVE AN EMOTIONAL CONNECTION WITH THE DEVELOPMENT

When looking at a site, it's important to feel good about key features such as the location, parking, views, neighbours and local amenities, like shops and transport links etc.

Feeling positive about the development's potential is important. Not least because, if you are bought into the positive features of the development, there's a good chance other key people will be too - including the bank, the bank's valuer, the sales agents and of course future buyers.

2 RESEARCH INTO THE LOCAL PLAN / PLANNING PORTAL

Review the Local Plan, a copy of which can be obtained from the local planning authority website. It's important to be aware of and understand any plans the local authority have for the area, including the timings of any new developments. Consider how this could positively or negatively impact on sales of YOUR development in the future.

Review the planning portal, also available from the local planning authority website. See what other applications are in for planning, what has been approved and when other sites might be complete and coming to market. Oversaturation of units in the market at one time can, and will, impact on your sales prices.

3

PROPER ASSESSMENTS OF THE GROSS DEVELOPMENT VALUE (GDV)

The Gross Development Value (GDV) is the estimated total value of your completed development. This is estimated in two ways.

Firstly, using empirical data accessed via the land registry and local selling agents. Ideally, you want to find as many comparable units (in terms of size, location, look and feel) as you can, within a small radius of your development, that have been sold in the last 12 months.

Now work out the size (m2) of each comparable and calculate the £/m2 rate of each. Once you have the average, use that in your development appraisal to assess the value of each of the units in your development. You now have one GDV value derived from historic data.

Secondly, ask some local agents to submit their views on what they believe the GDV will be of your completed development. Then use their lowest value numbers in your development assessment.

By virtue of this process you have created a range of GDV values.

4 PROPER ASSESSMENT OF THE OVERALL DEVELOPMENT COST

Your development costs will comprise of:

- Land value (purchase price)
- Budget required for the contractor to undertake the works
- The cost of purchase including stamp duty land tax (SDLT), conveyancing costs and survey fees
- Design costs
- Local authority fees

After adding in your cost of sale (Legals, Sales Agent fees etc) and cost of funding (arrangement fees, interest and exit fees), you will also need to include figures from any other parties involved in the deal (which may include your Broker, Sourcing Agent etc).

Once all of this has been assessed, you will have your overall development cost.

5 DEVELOPMENT PROFIT

Development profit is the number that is left when you subtract your overall development cost (*item 4*) from your Gross Development Value (*item 3*).

This number, as a % of the development cost, needs to be above the minimum criteria as set by the proposed bank, so speak to your Broker as soon as you can to understand the lending criteria, in terms of the minimum development profit required.

6 CREATE AN EVIDENCE FILE

As you are analysing your deal, be mindful that your figures and estimates might be questioned by the bank, the valuer, your investors etc and you'll need to be able to back them up. Create an evidence file and, where possible, avoid inputting numbers into your development assessment that cannot be backed up by empirical data or 3rd party quotations.

7 ADD AS MANY LEVELS OF DEVELOPMENT VALUE AS POSSIBLE

Some examples of adding value could be:

- Buying well
- Buying subject to planning
- Implementing the planning
- In a mixed-use scheme, bringing good covenant tenants on long leases into any empty commercial units

8 FUNDING AND EXITS

Analyse and choose your development exit strategy. This could be **Buy, Develop and Sell**. It could be **Buy, Develop and Hold**. Or it could be a combination of **Sell and Hold**. The choice is yours but, having analysed each one on its merits, you MUST choose your primary strategy and stick with it throughout the funding application process.

Lenders do not like uncertainty or multiple exit approaches, so make a decision and stick with it, up to the point the development is funded. You may decide to change your exit strategy further on into the development, which is fine, but make sure you keep your Broker updated with your plans.

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DEVELOPMENT / LENDING TERMS

When planning timelines for your development, make sure you allow sufficient time for the design and strip out, the tender period and contractor selection, the construction period and finally the sales process.

Your lender will offer terms based upon their assessment of the overall period and not yours. If the bank's assessment is a longer period than yours, adjust your numbers accordingly, including the additional cost of funding any extended period.

If you feel the bank's lending term is insufficient, you should raise this upon receipt of the lending offer and ask for the term to be extended. Having to refinance the development, due to running out of time, can cost a significant amount of money and will have a detrimental effect on your overall profit. Better to ask for more time at the beginning.

DEVELOPMENT CASH FLOW

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Projecting and modelling the development cashflow is essential. You will be paying VAT on bills from contractors and your professional team, but your bank ***will not pay VAT*** on top of your monthly draw downs.

This will have a significant monthly cash impact that needs to be factored in, so it's important to clearly understand what additional cash/investment will be required to cover this over the duration of your development. This is **essential** or your development company will run out of cash.

Get Access To Our Unique Deal Analyser Tool

Having read through this checklist you will see the importance of having a clear and robust process for effectively analysing every development opportunity that comes your way. The stakes are high and you can't afford to make costly mistakes.

Accurately cash flow your development and ensure you remain in good financial health.

At EquaAcademy, members of EquaPortal PLUS get access to a unique tool created by our co-founder Nigel Greene.

Using a bank grade methodology, the Deal Analyser (EquaDA) is the exact tool we use every day in our own profitable property business.

With a RICS approach to valuation and costs, this innovative tool enables you to accurately model the cash flow of your development and ensure the company remains in good financial health over the duration of a project.

In its fifth year of development, the EquaDA is updated on a regular basis, to capture legislation changes, learnings from our own development sites and enhanced functionality to help with analysis and due diligence.

Members of EquaPortal PLUS get access to the most up to date version, as well as guidance notes and training videos, for the lifetime of their membership.

> *"The EquaDA is a fantastic tool I use daily. I've come across other so-called 'development analysers' but none so comprehensive and yet intuitive to use. We recently acquired a large development of 36 apartments and 10000sq.ft of commercial space (GDV of £7.3M) using the EquaDA"*
>
> **- Alex Impey, XUSA**

> *"The EquaDA is the most comprehensive commercial property deal analyser I've come across. It reflects the RICS valuation methodologies, helps the developer feel confident about the deal and provides the due diligence for capital investors. Absolutely great tool."*
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> **– Patrice Elonge, Poseday Property Solutions Ltd**

For more information on this, and all the other benefits enjoyed by our EquaPortal PLUS members, see www.equaacademy.co.uk/equaportal.

EquaAcademy

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We’ll Show You How to Get Maximum Returns with Minimum Risk

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