

property development news | propertymastermind

Property Mastermind is the leading property development course provider in Australia.

Founder Bob Andersen is an industry legend who honed a property development system over 30 years through involvement in more than \$1 billion worth of projects. This invaluable experience is now available to property investors and aspiring developers as course materials, resources and events for purchase online.



Property Mastermind Programme

You can achieve more in just one year than most property investors achieve in a decade, with the Property Mastermind Programme!

Mastermind MM19 Top Performers

The image shows a large group of people, mostly men in business attire, posing for a group photo. Above them is a banner for the 'Property Mastermind Programme' with a starburst graphic that says 'For Serious LITE INVESTORS Only'. Below the photo, the text 'Mastermind MM19 Top Performers' is displayed in a large, bold font.

Join the thousands of other Property Mastermind students and learn how to be a property developer today.

What Is the Ideal Profit Margin in Property Development?

Regardless of the market situation, a financial feasibility showing a realistic rate of return can help you make certain that you can make money in

property development.

In planning your property development project, the bottom line must show a suitable return for the money and effort you put into it as a developer. The ideal profit margin is between 16 and 20% on development costs. This refers to your profit as a percentage of your total cost. We call that margin on costs or return on costs.

By way of example let's say you develop a three-townhouse project and each townhouse is worth \$720,000 on completion. We call that a \$2,160,000 project ($\$720,000 \times 3$).

Let's say the total cost of the project is \$1,800,000. The profit would therefore be \$360,000 ($\$2,160,000 - 1,800,000$).

The margin on cost would therefore be 20% ($360,000 / 1,800,000 \times 100$).

Why should you aim for at least 16% net return?

You can gain a higher profit margin if the property market rises during the development period. Conversely, if the market retracts you have a good safety buffer.

A 16 – 20% margin is considered the sweet spot between providing a safety net in case of abrupt changes in the market and still making a decent profit in this business. By working on a 16 – 20% margin, you can make enough money if the market is bad and good money if the market is good.

Banks are also using the 16% rule

A 16% margin is a conservative figure and is often the minimum return a bank would expect when offering a developer a commercial finance package. That said, your success with the bank rises when you approach 20%.

On small projects say up to three townhouses you could use normal retail finance rather than commercial finance which is more expensive. With retail finance, providing you can show suitable serviceability, the margin is often overlooked as the bank basically lends you a percentage of costs.

While this means you can do lower margin deals, for your own sake you should avoid any projects, however small, showing less than 10 – 12% margin.

Always work on your feasibility plan first

To minimise risks, it is crucial that you conduct a feasibility study on a potential development site. This is one of the first things you must do.

Sadly, I have seen newcomers to property development make costly and avoidable mistakes because they have never invested in learning how to do an accurate feasibility. By not knowing the costs or undervaluing them you can make a bad deal look good.

Comprehensive Financial Feasibility Program from Property Mastermind

Completing a feasibility Feasibility is one of the crucial steps in property development, which is also a big challenge for beginners in this field. A financial feasibility is not only a requirement that you need to submit to your lenders but also a significant tool to determine if you can really make money from a particular property project.

If you want to be more confident in property development and not make costly mistakes, you can learn from Property Mastermind's training videos coupled with our very own financial feasibility program.

For inquiries, call Property Mastermind on 1300 729 550 or send email to admin@propertymastermind.com.au