Res Dev Real Talk

Property Development Market Update
Australia

AUSTRALIA
ISSUE TWO // SUMMER 2021

In this issue:

Interviewed by
Julian Brockhurst &
prepared by

APRAO

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Introduction

By Aprao

Welcome to our Summer Edition of Res Dev Real Talk, where we present you with leading voices in the real estate market, who speak on recent trends in the sector from construction to innovation, with a look to the future of our profession.

In this edition, we bring you three interviews that took place between Aprao and experts in their fields. Our first interview is with Kirsty Chessher-Brown, CEO at the Queensland division of the Urban Development Institute of Australia, who speaks on how developers and local communities can work together to make Queensland's development space greener, smarter and more sustainable.

We also speak to Andrew Knight who represents Data and Tech research for the Royal Institution of Chartered Surveyors. In our interview, we discuss how the property industry needs a comprehensive data standard to drive wholesale digitisation forward.

Finally, we chat with Jayden Coulston, Senior Manager at specialist accounting firm BDO Australia, to discuss how project managers and developers can avoid common pitfalls when seeking development finance and when working on different phases in the construction pipeline to maximise their projects.

Many thanks to Julian Brockhurst who interviewed our experts for the original webinar series Aprao Presents... Aussie Experts. You can watch all the interviews from this report in full by clicking here.

We hope you enjoy this issue!

Creating smarter communities for all Queenslanders

In conversation with Kirsty Chessher-Brown, CEO // UDIA Queensland

How can we create smarter communities within the Australian development space?

In this conversation, Aprao speaks to Kirsty Chessher-Brown. Kirsty is the CEO of UDIA Queensland, the largest urban development network of community creators in Queensland, and has wide-ranging experience developing the Institute's policy, stakeholder engagement, and research endeavours as well as consulting on a significant amount of state and local government policy development.

Joining the Institute in 2006, Kirsty has directly overseen the growth of the UDIA's EnviroDevelopment program and was instrumental in the establishment of the Research Foundation.

Topics covered in this conversation include how best to drive change within Queensland's development industry to facilitate greener, smarter and more resilient communities, whether this is through advanced research methods or the development of effective policy. We also cover how to develop in line with the UN's Sustainable Development Goals.

"This is an industry of innovators, it's an industry of entrepreneurs, and that goes together with excellence and wanting to do better than the last project."

With the recent announcement of the Olympics, the property development market seems to be booming. What's your overview of the current market and trends in the state?

It's safe to say our members are pretty busy at the moment and that's been for a range of reasons. One particular measure by the federal government during COVID last year, HomeBuilder, has really spurred everything on and was the initial impetus for driving a lot of that activity across the state. Though what has perhaps surprised us is the level of demand post-stimulus. HomeBuilder finished in the first quarter of 2021 and our members are telling us that there's still really strong levels of demand. Whether this is for a house, a land package, or a unit or a townhouse, it would seem that property is enjoying a really strong and positive sentiment and that Queensland is the place to be.

We've also experienced really strong levels of interstate migration. It would seem that again, COVID has been a real driver for that. As part of our qualitative research, we have spoken to people in Sydney and Melbourne and asked them what their next property move might be. By and large prior to this people were planning to move, particularly to southeast Queensland, within the next five to ten years.

What we are now seeing is they are bringing forward that decision to move to Queensland, so that their decision to move in the next five years has turned into a decision to move within the next two. So we are seeing strong levels of interstate migration and we would expect that to continue, as we don't think it's a flash in the pan for just 12 months.

Of course, it's really contingent on maintaining a strong job market and employment opportunities across the state. But we have some fairly significant infrastructure investment from the state government in combination with local and federal governments - so we think that it is sustainable.

In March last year, we were really concerned in the midst of the COVID crisis with what may happen to the property market, acknowledging that in Queensland, we are the third-largest employer across the state and there were real concerns about what might happen, but the market is doing really well.

There are obviously some challenges that come with a buoyant market, particularly in terms of getting access to products, and I think everyone has got a story, whether it's a shortage of timber, or steel or roof tiles. There are product supply shortages and the industry is having to grapple with that. We're also seeing some pain around getting tradies to start, so there are a few bumps along the road.

However, we're certainly in a great position and we're really grateful that the property market has been able to survive some of those COVID challenges that we've experienced.

"We've also experienced really strong levels of interstate migration."

You are known to champion many research endeavours within UDIA Queensland. What are some of the current focus areas and why?

What we are really interested in with our Research Foundation is trying to deliver products and insights that allow our members to make better business decisions. Our research partner CSQ has been an incredible support in helping us to identify what those things might be, so we're really lucky to have a great team and a great partner to be driving this.

We've done a lot of work trying to understand what community sentiment is towards different types of products and how the community would like to be involved in the consultation engagement process that wraps around property, which has been an important piece for us as it allowed us to give some additional guidance to both our members and government.

This year, we've been looking at whether COVID might shift any consumer attitudes towards different product typologies; ie. whether people are more or less likely to move into an apartment. And once they move into that built-form product, whether it is an apartment, or a house, or a townhouse, have their needs changed as a result of COVID? Or, in terms of their external environment, are they looking for more parks, more coffee shops, more medical centres? The answers to these help us to frame how community neighbourhood structures might change post-COVID.

Importantly, we've just finished some work, using a focus group, on understanding how we can better communicate the challenges of a growing population, and coping with a growing population a little bit more broadly by examining the consumers and the community at a neighbourhood level.

UDIA Queensland promotes the goal of supporting Better Communities for All Queenslanders. It's focused on three key pillars - greener, smarter and more resilient. This is very much in line with the UN Sustainable Development Goals. How is your office going about upholding those pillars?

We set up a sustainability rating tool 15 years ago at UDIA Queensland, which is there for our members to help guide them towards some of those goals of being green, resilient and smart. What we are trying to do with EnviroDevelopment is provide our members with a platform to demystify what it is they can do in really simple terms to make their next development a bit greener and more sustainable.

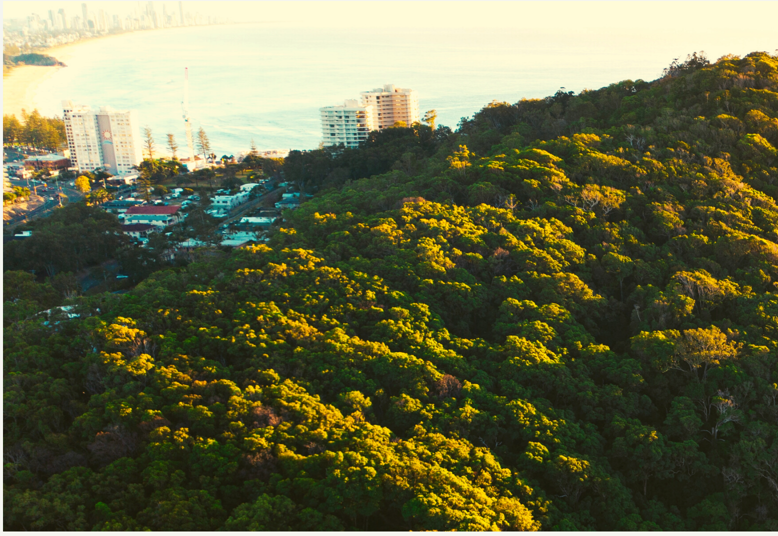
That's been an important thing for our members and something that has stood the test of time over the last 15 years. Standards have changed and consumer expectations have changed in terms of sustainability. I think that starts to illustrate just how important those goals are to our developer members, but increasingly, how much consumers are also seeking out more sustainable houses and units, and now rely on some of those credentials to be able to deliver that third-party verification for them. I think EnviroDevelopment has had its most successful year in 2021.

Why are innovation and the constant search for improvement in development so essential?

It's an incredibly competitive marketplace and we see that every year through UDIA's Awards For Excellence programme. We have 21 categories, and it is highly competitive - we are lucky enough to have an industry that just tries to better themselves through each project. And I would go so far as to say that it's rare to come across any other industry that is as driven towards such a need to better their next product to the extent that they roll down their previous one.

There is this drive towards better delivery and being better than their competitors. When we look at the driver for that, it really comes back to consumer demands and expectations.

This is an industry of innovators and it's an industry of entrepreneurs. We're all also out there for sale, so the need to be able to demonstrate that this project is better than the last project is incredibly important. For me, the drive towards innovation comes down to a drive towards excellence. And I think that's only good news for the buyers out there, and for the broader community. It's certainly an industry that is driven towards delivering better communities.



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"This is an industry of innovators and it's an industry of entrepreneurs."

The global RICS data standards and what they mean for the property industry

In conversation with Andrew Knight, Data & Tech // RICS

Are you interested in the future of data adoption within the property sector?

In this interview, we speak to Andrew Knight from the Tech Partner Programme & Data Standards team at the Royal Institution of Chartered Surveyors, who takes us through the global RICS data standards, and what it means for the real estate and tech industry.

Andrew is a highly experienced technology specialist with a strong commercial background working for the RICS, a global professional body in land, property, construction and infrastructure. He currently leads the programme and adoption of the RICS's data standards, and the support of data exchange between service providers, technology companies and end-users of data.

Topics in this conversation include the evolution of innovation in the property sector and how the tech industry can be progressed in the property market.

We also speak about barriers to data adoption, the need for further digitisation in the industry and how collaboration between different actors could make this happen.

"PropTech firms and other actors need to understand that they're part of that story. They need to help by assembling this data for customers."

You have a tech background and have seen a number of waves of innovation come through the industry over the years. Where do you think the property industry is on the adoption curve and why do you think that is?

Well, it's a hugely mixed picture. I think for me, it reflects perhaps the fundamentals of the industry, which is that it's a fairly fragmented sector in terms of the number of participants and their activities and practice area. What I see, both in my home market and as I talk to people around the world, is how different this adoption curve is in different jurisdictions and in different asset types.

You have extremes; there are some people on one side that have very powerful digital equivalents of their assets, which are doing incredible things, and they have a very deep knowledge of the assets they deal with. At the other extreme, we are effectively in a kind of Edwardian or Victorian era, where we have bits of paper that may have been digitised or turned into PDFs.

In some respects, that kind of proliferation, which in many ways is great in terms of driving innovation in PropTech and ConTech, means that we now have many more silos of data in different formats.

I remain hugely optimistic about the power and the opportunity here to digitise the built environment, but we are in this incredibly mixed picture where certain participants have made tremendous progress, such as digitising leases and geospatial information.

Yet at the other end, it can be incredibly hard to have even basic information available on an asset for due diligence purposes, or for fire safety purposes, for example. I think it is an incredibly mixed picture but still a huge opportunity.

How can we progress the tech industry in the property sector in terms of that adoption?

Factors like COVID, for example, are a very sad thing to have as a catalyst, but I think there are a number of things that are driving the kind of digitisation of the built environment. ESG for example will be a huge issue.

This is because investors are now very concerned about their assets looking forward. They are now thinking, 'do I have the data that gives me a sense of [a developer's] ESG credentials? And if I don't, am I looking at real risk here?' There may even now be restrictions on whether you're actually able to lease or rent a building, for example, depending on its quality, and therefore there is a cost that might go with that. So I think there's a real driver now to get data, particularly surrounding ESG criteria.

"I remain hugely optimistic about the power and the opportunity here to digitise the built environment."

Focusing more specifically on the RICS Data Standards, can you give us an overview of what they entail?

We started from the premise that our profession is out there measuring, reporting and assuring information. And information increasingly has to become digital. We started from the premise that we need to think about this from a standards perspective, whether it’s valuation standards, whether it’s overall due diligence, whether it’s a standard around cost reporting - right through the lifecycle.

We realised the industry needed to build a common standard, a common way of naming and exchanging information on the built environment that really fundamentally would support our members and our profession in exchanging that information. It's around making sure we understand consistent naming, that we also understand that this information has to be assured and that provenance should be captured, and to really aim to be an interface between systems.

We're not in any way implying that everybody should copy our [RICS] data standard with their internal models, but we are saying that when you begin to exchange information, we need this common language, this understanding of what we describe and how we describe it.

For example, what units of measurements have we used? If we are to consistently measure those values - whether they're space or capital values - what standard have we used?

We're open enough to realise that it won't always necessarily be an RICS standard, but if you are going to report the value of a building and the size of a building, you should be describing it in that consistent way. Finally, from the professional assurance perspective, it's important to make sure that we can trace that data back.

"We need this common language, this understanding."

We spoke about the proliferation of different PropTech players in the market. What can tech firms provide the industry with to be able to link this data and standardise processes?

In the European market, the banks and the valuers have come together with software houses to actually make sure there is a fairly seamless, machine to machine way of passing valuations around to make sure that the banks can send out the instructions and the valuations can come back in a set format. In that system, they are getting rid of PDFs and have effectively got rid of Word documents. They've managed to structure a process from end-to-end in both directions, where instructions go out and valuations come back and the whole process is much more efficient.

I think what's really important is that the various PropTech operators out there should understand that they will need to work within this ecosystem.

The fragmented nature of real estate in the built environment means that when you're assembling your digital twin (your equivalent of an asset), you are quite often pulling in data from lots of different sources.

No one operator is going to have a monopoly on all the data. So instead you're going to need to get data from your local registry, cadastral and taxation systems - you're going to have data coming from lots of different sources- so it's unlikely that one particular vendor, or one particular actor, has got all the data.

A data standard like the RICS's seeks to join these islands of data together. It's in that working together to assemble these full digital equivalents of assets that I think PropTech firms need to understand that they're part of that story. They need to help by assembling this data for customers.

There is anxiety around sharing data freely in the industry. Do you think we'll ever get to a point where everyone freely shares their data to add value to the market?

I had a conversation with somebody in the construction sector many years ago who began to realise that they were simply hoarding a small percentage of the market data that they had access to. Whereas, the real value was in having a full view of the whole data set. The value and the charge, from their perspective, was on that analytics and what they could do with the data; how they could actually help their clients inform their decisions.

In a previous life, I worked in an ad-serving company and we did analytics for the FMCG market looking at buyer behaviour. We had a database with lifestyle and transaction information on every household in the US and the UK, and with that we did well. Before people used words like 'big data' or 'AI', we had regression models and chain models and we looked at all this data in a room full of Linux machines. The interesting thing there was that everybody putting in their data, in recognising the levels of competitors, realised it was better to pull the data and then have us as an independent analytics house do all that analysis.

So in certain markets and in certain sectors, that journey has already happened. They realise that it's better to have 90% of the market view by sharing data, with the power being in the analytics. I think in that sense, for better or for worse, real estate almost depended on that kind of siloed, protected data rather than recognising that it's the analytics where the real value is derived.

But it'll take some time to get there because I think there are some market incentives where people enjoy this information asymmetry and they enjoy the fact that they have a set of data that nobody else has access to.

But I think it will change as once again, things like ESG and the drive to get residential properties more sustainable will force more openness with data. Then it's down to the analytics, and what you do with it afterwards.

Focusing back on the RICS, would it be fair to say that you're looking to continuously move your members up the value chain by supporting them with tech and data?

If so, where will they be in five years?

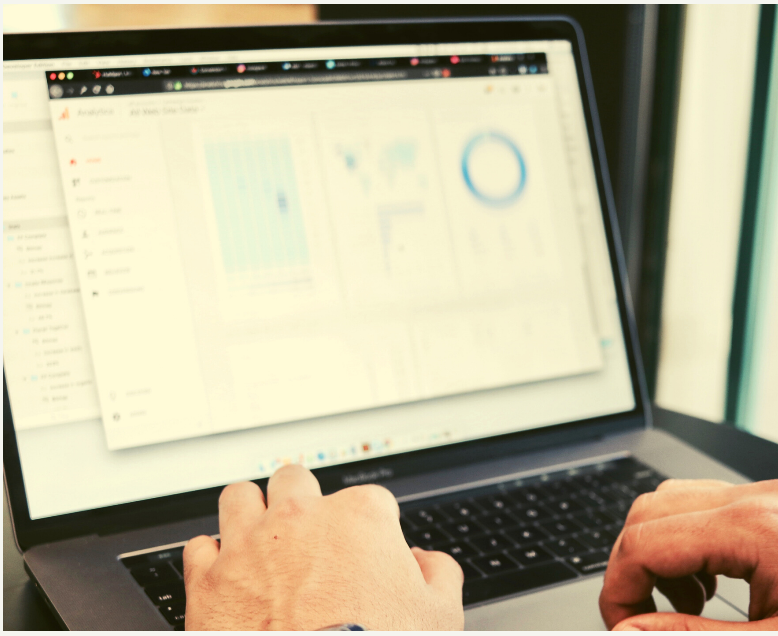
In some respects, the profession has always taken technology on board. I think we're seeing a particular wave at the moment in terms of the amount of change that's going to take place. It's even more important that, as we digitise the real estate and the property industry, there's a profession there to curate and manage that data and make sure that people can rely on it.

There's always a danger that just because you see a number on a computer screen that it must be right. I think we still need that professional scepticism.

We still need people to be curating and gathering that data, because ultimately although we now have IoT sensors and we have a degree of automated data collection, there's still a lot of occasions where you need boots on the ground with people looking at physical assets to assess what's going on.

So going up the value chain, they'll certainly be issues, I think particularly where data collection and valuation may be much more automated, where we can take tasks away from the profession to free them up to do more value-added work.

However, I think the digitisation of real estate presents many more opportunities than downsides in terms of requiring professionals to assure and curate that data.



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Why Accountants are as important as Project Managers

In conversation with Jayden Coulston, Senior Manager // BDO

In this interview, we speak to Jayden Coulston, a Chartered Accountant at BDO Australia specialising in the areas of debt advisory and business restructuring with over 10 years of experience. We chat about the common pitfalls developers can avoid by engaging with an accountant early on in a project.

We cover what to avoid when handling the finances around a development project, how developers can gain a competitive advantage and the impact of innovative tech solutions on BDO.

> “In the accountant world, I believe that we can have just as much of an influence as a project manager on the profitability of a project."

Could you break down some of the main areas that BDO works on? How can accountants make as much of an impact as project managers?

The job of a project manager is extremely important in ensuring things runs smoothly, on budget and efficiently. Generally in my experience, a project manager is engaged once a project is already on foot, so you've already done your feasibility and you engage that project manager to work through to execution.

Now in the accountant world, I believe we can have just as much influence as a project manager on the profitability of a project if we are engaged early on in the process.

The value is in the feasibility - where we assist as a second set of eyes, to work out whether the project is viable. We can determine if you may have missed anything or whether you can afford the project manager that you're proposing. We can assist you with preparing the cash flows to work out your cash pinch points, timing and structuring.

If you get your structure wrong from the get-go, it could be very costly for you to rectify. For example, if you buy something in your personal name but you're not happy with your risk profile, and you want to put it into a corporate or trust structure to complete your development, you'll end up paying double stamps.

We can help you with finance suitable to your situation, so that may be typical construction, finance, drawdown facilities, debt versus equity analysis – the world's your oyster.

We also do the cleanup with accounts and taxation on the backend. So all of those areas, even individually, can make or break a project, in my view.

What, in your experience, are some of the common pitfalls you find when working with developer clients?

One of the biggest ones we see is clients or developers mixing personal and business expenditure. I know that it can be blurred in some instances, but rule 101 is just to record a separate trade or a separate bank account, as it makes reconciliation splitting so much easier because it's done for you. You then just know to use a separate card in your wallet for anything on your development account, versus your groceries. And that'll save a lot of issues for compliance.

We see a lot of times where developers can choose their GST reporting, whether it's monthly or quarterly. I'd always recommend you opt into monthly reporting because that's going to get your GST refunds quicker throughout your construction phase, and as no one wants to wait three months through construction for a GST refund.

Another aspect of that is the profit margin. Generally, that would be aiming for any profit. Now, this is essentially your risk margin as well. If your margin's too low, you should adjust your purchase price for the property that you're looking to acquire or find a new property. Also on top of that, as part of their metrics, banks will [also expect] a 15 to 20% profit margin to be there, so if it doesn't stack up for them, you're not going to get finance.

That leads to development finance, which is another pitfall. What we see with some clients is they get the feasibility wrong. They often come to us after the fact, and it's a very quick way for a financier to lose confidence in your project. Banks are always going to discount your feasibility to a degree, but you don't want them to be picking up simple errors or see you getting your cash flow wrong. If you work out that your finances are not enough to get you through those pinch points, you also never want to go back asking for more money, because you may not receive it from the bank. So obviously, we [BDO] can help you in all those areas, so that you don't make those mistakes.

Moreover, what I've seen with some clients is just no contingency, they expect the project is going to run without any issues, which generally never happens. So a rule of thumb I like to play by is 10% uplift on the construction, holding and contracted costs – some of those overlap, but that gives you a bit of buffer on your project.

A recent example of where a contingency would have been really handy is if you had purchased a property prior to or during the pandemic. You had done all your fees and expected building costs to be excellent. But due to the timber supply shortage during COVID, you've got no contingency and you're stuck with [a situation] where your costs have just blown out. In that situation, contingency would have soaked up a good chunk of that.

"What I've seen with some clients is just no contingency, they expect a project is going to run without any issues, which generally never happens. So a rule of thumb I like to play by is a 10% uplift on the construction, holding and contracted costs."

What effect, for better or worse, has innovation had on your operations?

Professionally, cloud accounting has had the biggest impact on our industry. I truly believe that without cloud accounting, it's still very archaic. By just having that live access to the client's financials, it means that we're able to provide timely and concise advice, real-time.

Another one is Google Sheets as it just allows multiple people to jump into spreadsheets. You can show them what you're working on live and work through it together. Rather than just presenting, both people can actually input data, which is great.

In this industry, why do you think innovation or the constant search for improvement is so essential for everyone?

My view on innovation is a global view. The main goal is to improve efficiency, to gain that competitive advantage. Taking it back to development, efficiency is 'more time, equals more profits, equals more projects'.

I think generally developers can do more on the innovation front. I am hoping that the announcement of the Olympics is going to push us along a little bit because there will be a lot of competition for those infrastructure projects.

People are obviously looking at doing the long play, the outside buy and hold. And developers are looking at the short play and whether that's going to be a better option, and although I don't know how it's all going to pan out, I think with the Olympics announcement there's definitely going to be a push in that [innovative] direction because it's going to be a hot market.

"With the Olympics announcement, there's definitely going to be a push in that [innovative] direction because it's going to be a hot market."

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Aprao is a cloud-based development feasibility tool, which is used by property developers, land teams, valuers, agents, development finance lenders and property professionals.

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