

PROPERTY AND PROJECT DEVELOPMENT LIFECYCLE



Bartier
Perry
LAWYERS



“Property development can be a minefield; let us guide you through it to maximise your investment.”

CONTENTS

FINANCE, TAX & STRUCTURING

ACQUISITION

DEVELOPMENT STRATEGY

DEVELOPMENT CONSENT

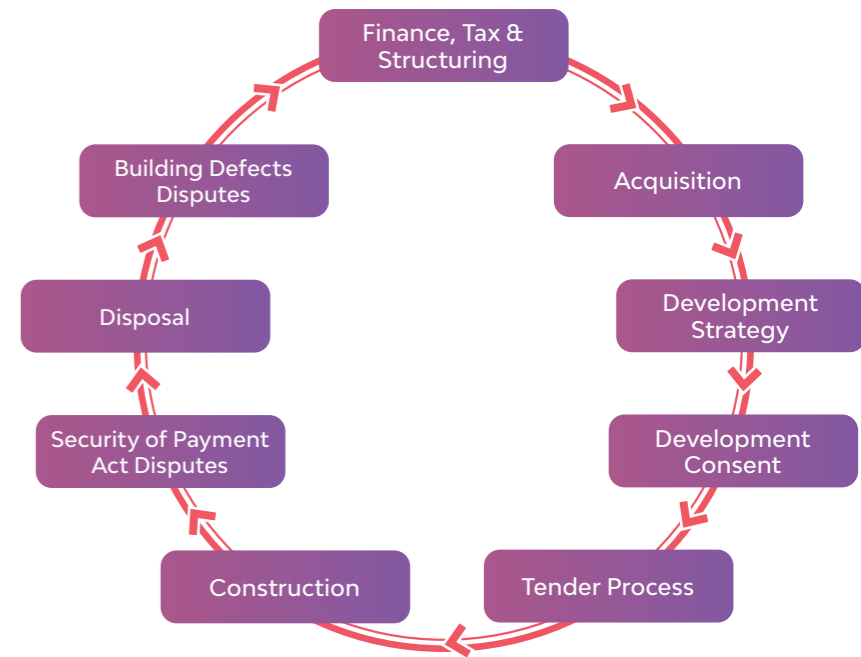
TENDER PROCESS

CONSTRUCTION

SECURITY OF PAYMENT ACT DISPUTES

DISPOSAL

BUILDING DEFECTS DISPUTES



FINANCE, TAX AND STRUCTURING

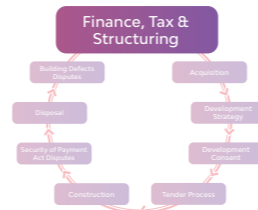
A property development without funding is like a carpenter without a hammer.



There are many ways to fund a development project and not one size fits all.

When funding a property development you need to consider what type of funding is available and which will deliver the best return.

Here is a brief list of considerations when it comes to funding, tax and structuring for the life cycle of a property development.

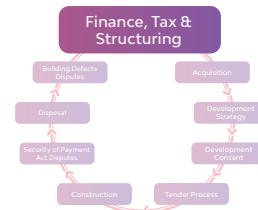


CONSIDERATIONS

- **What structure or vehicle do you use (and why) to undertake the development or what is your involvement in the development:**
 - unit trust
 - company
 - joint venture

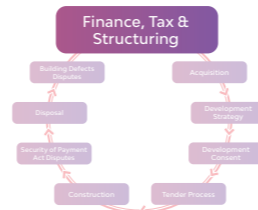
Often the answer will depend on the contributions expected by the participants as much as:

- minimising risks
- the capital and income tax implications
- any duties involved including duty on the transfer of any property
- **Which form or combinations of funding will be suitable and why?**
 - senior debt
 - mezzanine debt
 - equity including preferential equity



CONSIDERATIONS (CONT.)

- How do you structure your security and priority arrangements?
- What is the timing of stages, payments, completion and what constitutes completion?
- What are the conditions precedent of any funding arrangement including are there minimum equity and pre-sales requirements?
- Does the development need a residential development stock loans facility?
- Will funding be coming from foreign sources and, if so what are the tax implications of such debt?
- Will the building contracts and the builder accommodate the requirements of the funder including any tie in deed arrangements?
- Should you or do you have a development management arrangement?
- How will the interests of the various participant's in the property development be secured including the interests of the joint venture partners, financiers and suppliers?
- When are development profits realised and when is tax payable in relation to those profits? This could have significant cashflow consequences.
- How will the profit or revenue from the property development be distributed and in what priority to the various interested parties?



TO CONCLUDE

It may appear that each of these are separate and distinct but they are all interrelated and may have different considerations at different stages of the property development cycle.



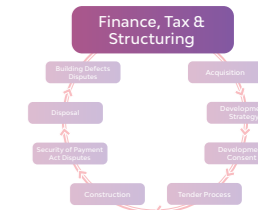
A successful project's plan will address all the issues in advance, as well as structure the property development to minimise risks through the various stages of the project's life cycle



At the heart of all this is ensuring that all agreements appropriately address the issues and have been negotiated in a manner to optimise the profits and mitigate the risk



As the old saying goes "He who is his own lawyer has a fool for a client"



ACQUISITION IMPORTANT CONSIDERATIONS

When assessing a property's potential for redevelopment it is important to consider:

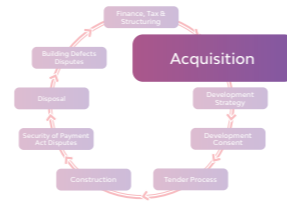
Existing **easements, covenants** and **restrictions** on use which may impact proposed development of the land

Existence of **infrastructure** on the land which may give rise to statutory easements that are not disclosed on the title to property

Encroachments by or on the land

Heritage listings which may restrict redevelopment

Zoning of the property and the impact on intended use



ACQUISITION

DUE DILIGENCE



A rigorous due diligence process is necessary to examine all issues

EXPERT ADVICE

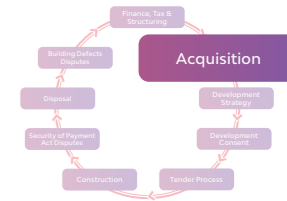


It is essential to understand any issues that may need to be dealt with and will help to refine the commercial terms of the acquisition

DOCUMENTATION



A well-documented transaction will ensure that the acquisition runs smoothly and will minimise the risk of costly disputes between the parties



DEVELOPMENT STRATEGY

UNLOCK YOUR PROPERTY'S POTENTIAL

A robust strategy is vital to realise the full potential of your property. We can help you:

Maximise your return through appropriate development

Understand your end goals and be strategic in your approach eg. concept developments and planning agreements

Avoid being restricted to what generic planning controls prescribe

Understand the planning controls that will dictate the type and scale of your development

The right strategy can allow you to vary or amend planning controls to facilitate a development that would otherwise be unattainable.



WHAT YOU NEED TO CONSIDER

ZONING

- Is the development permissible?
- Is the property located at a zone boundary?
- How do nearby developments affect your development?

DEVELOPMENT CONTROLS

- What are the potential restrictions - density, height, scale, amenity, design?

TIMING

- What is the anticipated delivery of the project?
- Are there likely to be delays in the assessment process?

APPROVALS

- What approvals and consents are required to deliver the project?

HERITAGE

- Is the property heritage listed?
- Is the property in a heritage conservation area?
- Is the property likely to be subject to an Interim Heritage Order?



DEVELOPMENT STRATEGY GETTING STARTED

PLANNING PROPOSALS



For **rezoning** and **changes** to development standards under environmental planning instruments eg. **upzoning** to increase density yields

DEVELOPMENT APPLICATIONS



To **obtain consent** for development including concept developments, state significant developments and other permissible development



VOLUNTARY PLANNING AGREEMENTS



Negotiating development concessions with a consent authority in exchange for contributions for public benefit

CERTIFICATION OF DEVELOPMENT



Streamlining the approval process eg. complying development



DEVELOPMENT CONSENT

OBTAINING DEVELOPMENT CONSENT THROUGH LITIGATION AND DEALING WITH CONDITIONS



In 2018, **80%** of Class 1 and 2 appeals were finalised by alternative dispute resolution processes and negotiated settlement, without the need for a court hearing



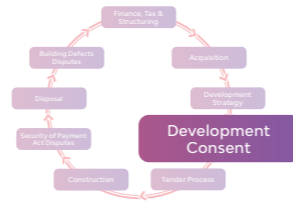
In 2018 1,010 Class 1 applications were filed, representing **66%** of all filings



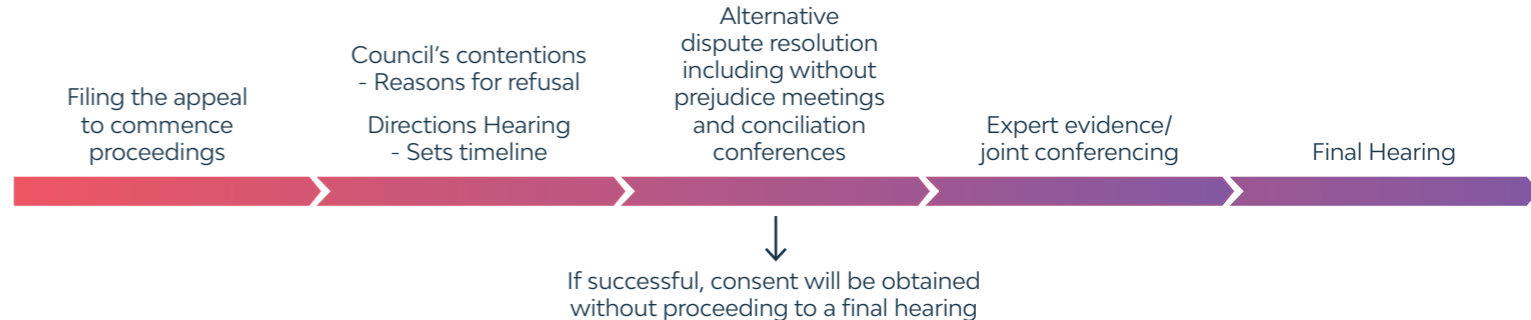
In 2018, **70%** of all Class 1 matters finalised were appeals under s 8.7 (formerly s 97) of the Environmental LEC Annual Review 2018 32 *Planning and Assessment Act 1979*

In certain circumstances, developers have no option other than to file an appeal in the Land and Environment Court against a consent authority's determination.

Otherwise, it's back to the drawing board!

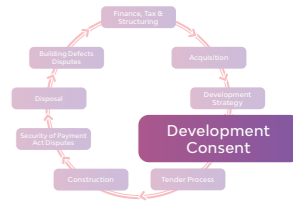


CLASS 1 APPEALS – THE PROCESS



At any stage of the court process an applicant can amend the application to respond to council's contentions.

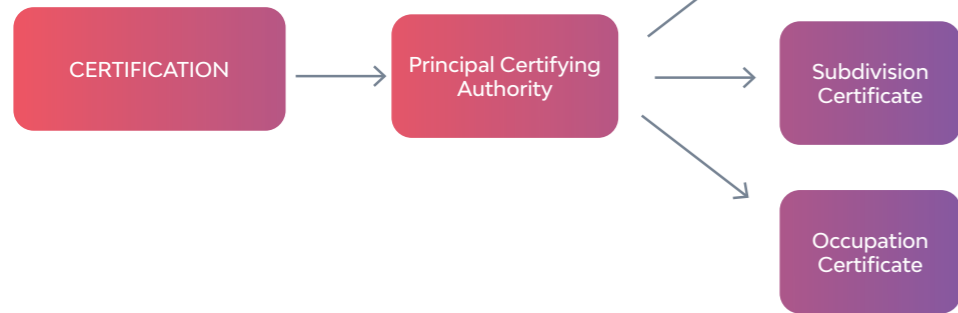
The vast majority of our appeals are resolved through the Court's alternative dispute resolution process - saving costs and fast-tracking approvals.



DEVELOPMENT CONSENT

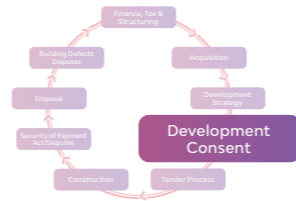
ACTING ON YOUR DEVELOPMENT CONSENT

ACTING ON YOUR DEVELOPMENT CONSENT

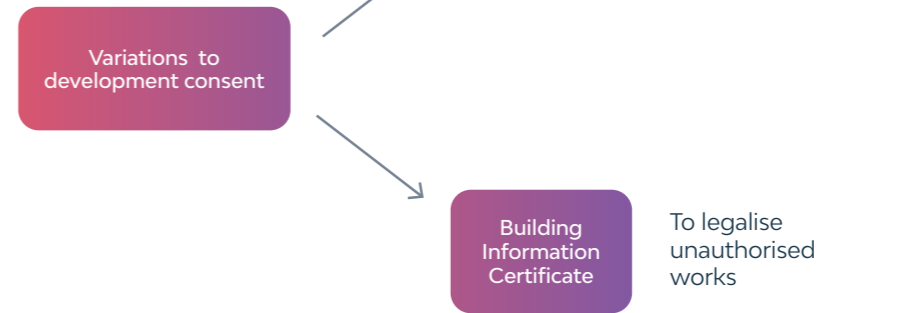


Where can things go wrong?

- Problematic conditions
- When you cannot build in accordance with the Construction Certificate
- When you have not built in accordance with the Construction Certificate
- Being issued with an order

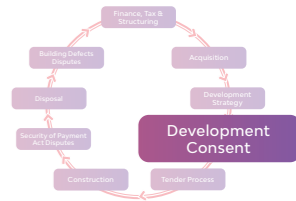


What options do you have?



Tailor your consent as required
To delete problematic conditions

To legalise unauthorised works



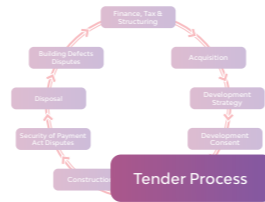
TENDER PROCESS



Once a development consent is obtained, it's time to go out to tender.

Tendering is a regularly utilised procurement process for obtaining competitive and comparable offers under which:

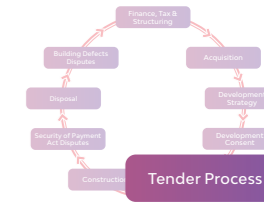
- the tender response is capable of being accepted or rejected by the the party inviting the tender
- there is no binding contract until the tenderer's offer is accepted by the party inviting the tender.



Unlike a simple request for quotation, tendering allows the party inviting the tender:

- to regulate the conduct of the participants of the tendering process
- to receive and assess offers that are easily comparable
- to control the contract terms governing the supply of the works or materials
- Caution - in certain circumstances, an invitation to tender can itself constitute a 'process contract'.

A process contract will impose binding legal relationships between the party inviting tenders and a tenderer during the "pre-award period" which will regulate and protect the integrity of the bidding system.



TIPS AND TRAPS

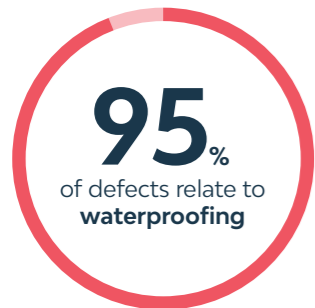
1. use a clause excluding the creation of a process contract
2. make sure the provisions and language used in the tender are consistent with any exclusion clause
3. state there is no warranty as to the accuracy of information contained in RFT
4. expressly reserve rights in relation to the tender process (for example, a right to reject any and all tenders, to change the tender process and enter into negotiations with any tenderer).

Remedies for breach of a process contract include:

- Usually - damages for breach of process contract being the tenderer's costs of preparation of the tender
- Possibly - a Court order to re-tender or an injunction restraining the party inviting the tender from entering into a contract with the preferred tenderer.

PRINCIPALS/ DEVELOPERS

DOES YOUR CONSTRUCTION CONTRACT REFLECT YOUR APPETITE FOR RISK?

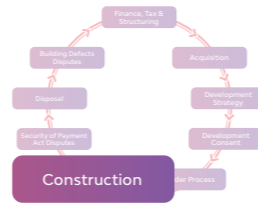


How does your construction contract deal with:

- Claims for an increase to the contract sum
- The provision of indemnities and warranties
- Disputes and alternative dispute resolution processes
- Termination, including for your convenience
- Extensions of time
- Site conditions
- Discrepancies in documents
- Back charges for defects

The *Design and Building Practitioners Act 2020* imposes a statutory duty of care on those who carry out construction work. Construction work includes commercial and residential building work, preparation of designs, supply of building products and supervision.

**Home Building Act
statutory warranties
are enforceable against
both the builder and
the developer.**

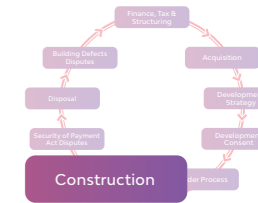


CONSTRUCTION CONTRACTS

The primary reason for amending contract terms is to **shift risk**.



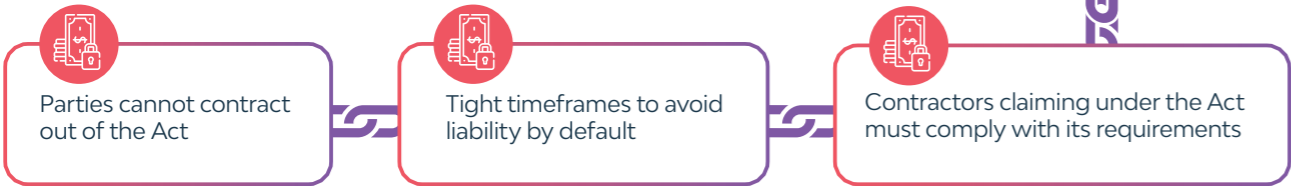
*CLAUSES MOST LIKELY TO BE AMENDED RELATE TO:	
EOT's	76%
delay damages including LD's	68%
variations	63%
warranties as to quality	62%



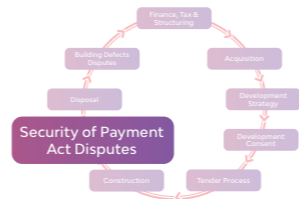
*University of Melbourne 'Standard Forms of Contract in the Australian Construction Industry Research Report' dated June 2014

SECURITY OF PAYMENT ACT DISPUTES

FACTS:

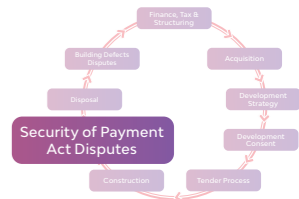
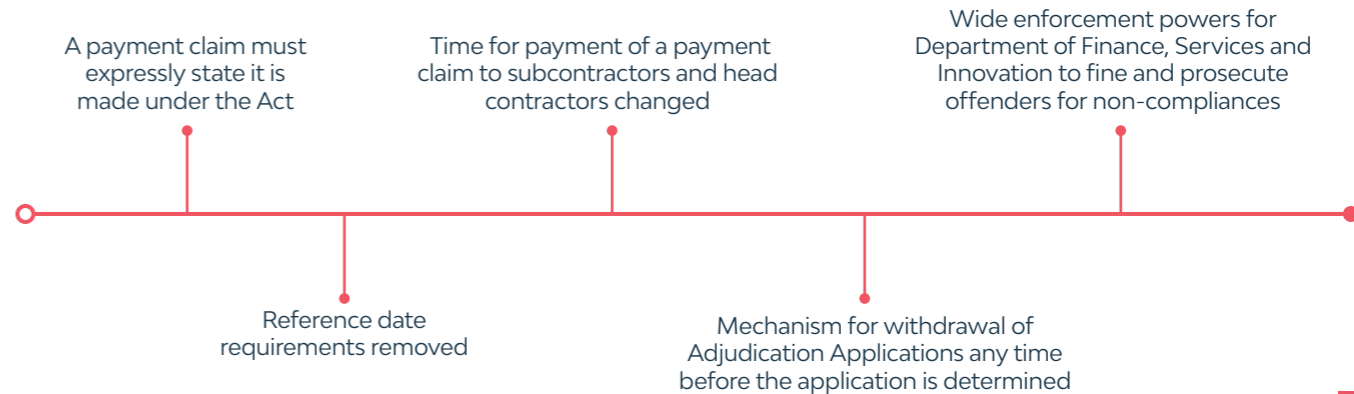


Each Australian state is different – we are looking at NSW only here.

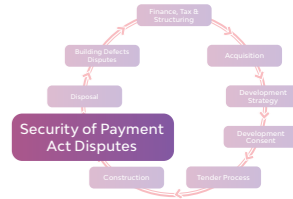
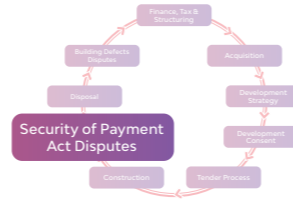


CHANGES

The NSW Act was significantly amended on 21 October 2019 - changes only apply to contracts executed after this date.



STATISTICS¹



762

applications lodged in FY 19/20

402

determinations released to the parties

Q3

applications lodged relating to sites in the Sydney region = **85.5%** followed by Hunter region = **3.8%** and the Illawarra = **3.0%**



subcontractors claimants = **67.2%**
head contractor claimants = **13.2%**

\$

FY 19/20 total value claimed amounts (determinations released) = **\$169,039,804** while total value adjudicated amounts (determinations released) = **\$79,152,745**



most frequent amount for claims adjudicated in Q3 = in the ranges of either less than **\$5,000** or **\$40,000 - \$99,999**

DISPOSAL

SEAL THE DEAL WITH WATERTIGHT ADVICE

Once all the hard work has been done it will be time to dispose of the product. This may be by way of a sale or the grant of a leasehold interest depending upon the type of project, which may be:



Build to lease

↓
Retail, commercial and industrial leasing



Land subdivision and sale

↓
We can assist with subdividing land for sale including securing ongoing property rights such as easements and rights of way

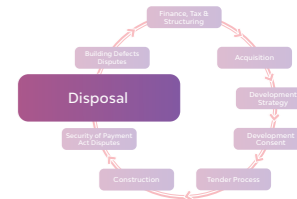
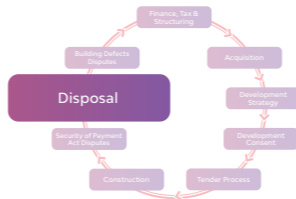


Off-the-plan contracts and sales

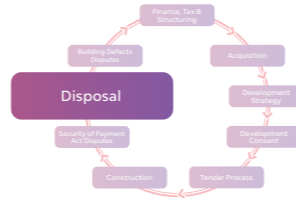
↘
We can draft contracts to ensure compliance with the laws and regulations.



Selling brand new homes following construction



DISPOSAL



It is imperative to get the documentation right to ensure efficient completion of the disposal of the assets and to minimise the risk of default and claims by purchasers.

Documentation required may include:

Commercial or retail leases

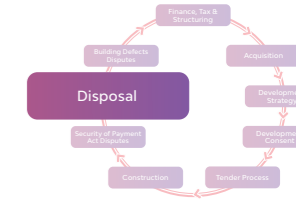
Agreements for Lease

Contracts for sale of land

Master Contracts for off-the-plan developments

Put and Call Option Agreements.

DISPOSAL



The property sector is an important driver of the Australian Economy. Despite difficult economic conditions in 2019 there were:



35,740 lots released across capital city markets



69,090 multi-unit dwelling completions



An estimated 43,000 completions of detached houses in greenfield release areas



A combined total of 117,000 new homes completed in greenfield release areas and urban infill locations across major capital cities*



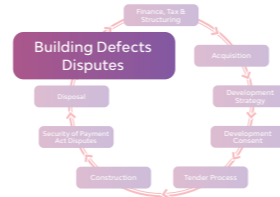
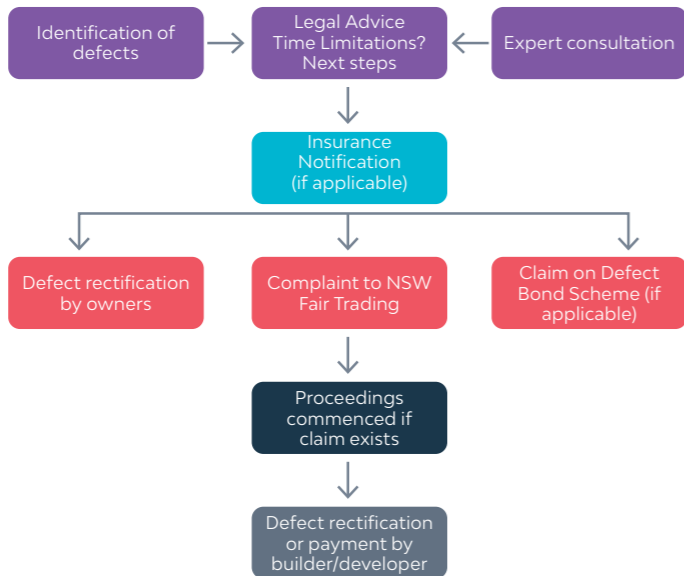
In the March quarter of 2020 there was \$11.66 billion of non-residential buildings completed within Australia (public and private sectors)**

*(Source: UDIA, CoreLogic, Research4)

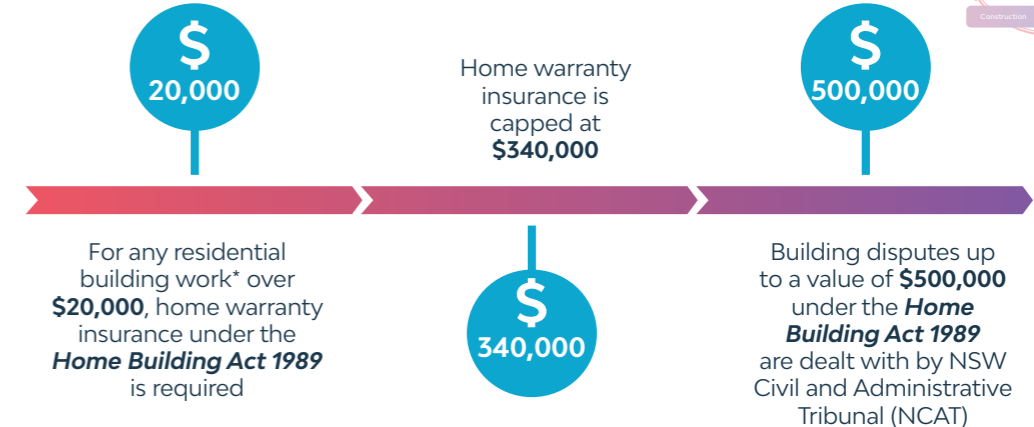
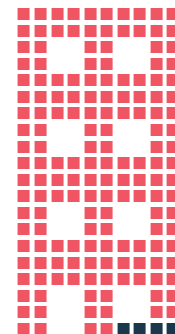
** (Source: Australian Bureau of Statistics 8752.0, Building Activity, Australia Value of non-residential buildings approved.)

BUILDING DEFECTS DISPUTES

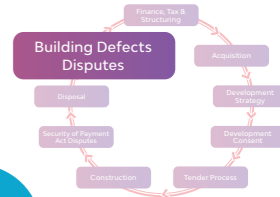
THE PROCESS OF DEFECT DISPUTES AND RECTIFICATION



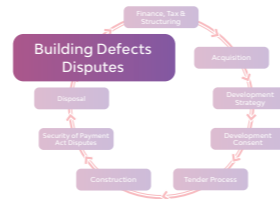
HOME WARRANTY INSURANCE



*Builders carrying out residential building work are not required to take out home warranty insurance for new buildings which are 4 or more storeys and contain 2 or more separate dwellings.



STATUTORY WARRANTIES UNDER THE HOME BUILDING ACT



Every building contract for residential work will contain the **statutory warranties** set out in **section 18B** of the **Home Building Act 1989**

The statutory warranty period:

- for a **Major Defect** is 6 years from completion of the work; and
- for **Other Defects** is 2 years from completion of the work

Section 18B Statutory warranties include:

- That work will be done:
 - with due care & skill
 - in accordance with plans & specifications
 - in accordance with and comply with all law
 - with due diligence
 - within the time stipulated in the contract
- That work on a dwelling will result in a dwelling reasonably fit for occupation

STRATA BUILDING BOND

IMPOSES OBLIGATIONS ON PROPERTY DEVELOPERS IN NSW

Original property developer (not the builder) must pay a bond (2% of the contract value) to cover the cost of rectifying any defects before final occupation certificate issued

Buildings must be checked by independent building inspector to determine the existence of defects



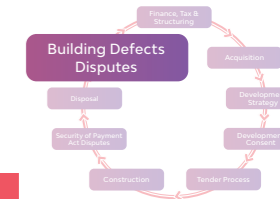
Contracts between developer and builder entered into after 1 January 2018



Buildings with four or more storeys



Buildings used for residential purposes (or a mix of residential and commercial purposes)



NSW CONSTRUCTION INDUSTRY REFORMS

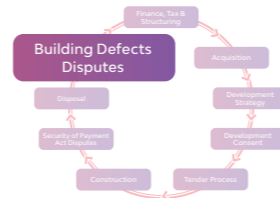
DESIGN AND BUILDING PRACTITIONERS ACT 2020

Aimed at increasing confidence in the building industry. Key changes include:

A new duty of care is now owed to landowners by people carrying out “construction work” to exercise reasonable care to avoid economic loss caused by defects.

A register of practitioners requiring designers, engineers and all people who contract to do building work, to be named on a publicly available register.

Compliance declarations to be provided by design and building practitioners as to whether building work complies with the requirements of the Building Code of Australia prior to an occupation certificate being issued.



RESIDENTIAL APARTMENT BUILDINGS (COMPLIANCE AND ENFORCEMENT POWERS) ACT 2020 (NSW)



Applies only to building work in respect of a residential apartment building.

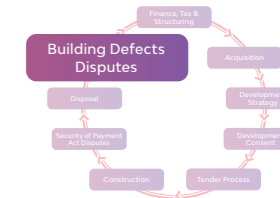


Extends to the entirety of mixed-use buildings which include a residential apartment component.



Empowers the Building Commissioner to issue to developers:

1. Prohibition orders to block the issue of an occupation certificate (or strata plan)
2. Stop work orders and
3. Building work rectification orders (with the ability to recover costs associated with such orders).



EMPLOYMENT, IR AND SAFETY CHECKLIST



Does the business, and the subcontractors, have appropriate and current insurances, including workers compensation?



Does the business have robust practices and systems to ensure wage compliance, including by subcontractors?



Are contractors properly engaged as independent contractors and not employees?



Does the business and project have appropriate safe work policies and method statements in place, including addressing drug and alcohol, fall prevention and traffic management?



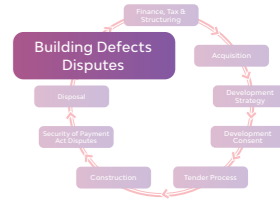
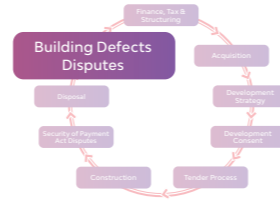
Does the site consult on safety with workers and other businesses on site, and have robust site induction practices?



Does the business have dispute resolution processes, and use them, for the prompt resolution of industrial and safety disputes?



Does the project and or site manager have a proper understanding of right of entry obligations and rights?



OUR TEAM

Our specialist team can guide you through the entire property and project development lifecycle to assist you achieve the best possible results.



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ABOUT BARTIER PERRY

Based in Sydney, we are a leading law firm with a proud 75 year history of providing expert legal services. Our clients benefit from our industry knowledge and holistic advice across every stage of the property and project development lifecycle. We go beyond the technicalities of the law and provide advice that gives our clients a competitive edge.

We have extensive experience in property law from conception through to realisation, assisting our clients to maximise their investments and to achieve their strategic objectives.

In delivering continuous value for our clients, we ensure you always have direct access to responsive Partners who balance deep technical expertise with providing clear, unambiguous and client-centric advice.

We provide tailored seminars for our clients. Presentations are also captured via webcast for our regional clients and available to view on our website. If you would like to subscribe to receive our bulletins and invitations, please visit www.bartier.com.au/subscribe

SUPPORT OF INDUSTRY

Educating and being involved with our relevant industries is important to us. It means together we are always current in an often-changing environment – not only with the law but with industry experts, current trends and broader industry information. We work with the various players in the industry to ensure we bring value back to clients.

Bartier Perry is a member and regularly sponsors, attends and hosts training events for the Master Builders Association, Urban Development Institute of Australia, Australian Property Institute and Planning Institute of Australia.



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