

In property we trust

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By Jonathan Jackson



In property development it is the quality of the end product that builds brand recognition, trust and loyalty. *Jonathan Jackson* speaks with Nicholas Smedley about creating niche communities in the property development market.

In 2006 Nicholas Smedley had built extensive experience in finance structuring, in banking, but there was a creative streak that wasn't being satisfied.

"In banking you can seed an idea and build the idea, but someone else sells it," Nicholas says.

Today he is able to see the idea through to its natural completion.

"From start to finish you control the evolution and you can drive past your creation and say, 'I've built that', even though you have sold it."

Back in 2006, Smedley tried to put together a syndicate of friends to passively invest into a construction and development business. When a site in Hastings in Melbourne's South East caught his

eye, he and his now partner Simon Pitard dipped into their own pockets to purchase it, went back to his mates and asked the age old question ‘are you in?’ The answer was no.

With the continued support of Simon Pitard, who had worked with some of Australia’s biggest development firms. Together they formed Steller, with Pitard acting as project manager.

Hastings was Steller’s first development. It was a six-townhouse site that set the tone for the business, including the in-house structures and services, the speed of construction the type of developments and the structured sales campaign.

“I went to my day job and then worked on the development in the evening,” Smedley says of those early days. “The process and discipline of having a shoestring budget and tight capital gave us the systems and processes we have today. We deliberately keep overheads low because the thing that kills a business is fixed cost blow outs.”

The second development was an apartment block in Frankston in 2008. Like Hastings it catered for owner-occupiers, looking for larger (70-75sqm), still affordable – with prices starting in the mid 400s – places to live.



Fast forward to 2014 and Steller has \$600 million in development throughout Victoria, in suburban areas including Bentleigh, Moorabbin and Richmond.

Where most property developers use third party builders, Steller has its own construction capability and as a result Steller offers quick project turnaround and with Smedley's banking background, strong return on capital investment.

“The only way to get paid quickly is to get in and out quickly. We can start construction quickly because our sales campaign is what drives construction. In these types of developments the capital growth is better so we attract investors. The other benefit is we don't price developments to get the biggest dollar, we undercut by 5%, which gives us yield, speed of sale, delivery and capital for the next project.”

As the business has expanded, there are currently 20 active development sites with six under construction and the rest in planning, Smedley has taken sabbatical from his position at KPMG to concentrate wholly on Steller's projects and the team of 100 employees and contractors that are working on the sites.

Steller now has several divisions: including Steller Concepts its construction arm and Steller Residential its dedicated sales and leasing arm.

No matter what the division, Smedley says everything Steller does comes back to delivery of an end product.

“How do we do that? We source the sites. We have strong relationships with local sales agents. We conduct good old fashioned grunt work to see what auctions are coming up and then we knock on the doors beside the sale site to see if further land could become available.”

And in a fluctuating property market, finding sites hasn't been difficult.

“Since January we have purchased 8-9 new sites, all \$25-\$50 million projects. It's a volume game. I would have looked at 100 sites, my team at 300 and we've purchased nine of them. We look at medium density, new growth zones where we can build four storeys high over 1250sqm. We build oversized three bedders on the ground floor because there is demand from small families and downsizing baby boomers who want something like a villa unit. The average two bed, two bath unit sells for approximately six hundred thousand dollars. We typically don't have anything over \$900,000. This is a product that the masses can afford and it is what they are looking for. The more expensive developments are not heavy off the plan; our model is off the plan because we don't want to

take on the funding without having sold the property. The key to the success of Steller is that we don't stretch too quickly."

Steller has a significant feasibility model, so unless a development stacks up they don't buy it.

"When you have a strong development in the right location, with the right product you can make profit regardless of the market conditions."

There are hot spots that Smedley won't touch including the Docklands and the city, which he says he will leave to the multi-billion dollar developers, but central areas that cry out for affordable developments are high priorities.

"Richmond will be fantastic. Every two years I want to see a new stellar flagship. Richmond is that step. In Bentleigh we have \$150 million in developments. Richmond is a single \$50million development. Two years ago we were excited by the first \$25 million development in Bentleigh. The latest development is by Moorabbin train station.

"This is an area that has always been neglected, but we have the support of Kingston Council to put up 45 apartments. The Mayor and planning department are supportive. Kingston Council said what do you need to get the permit to be the right permit, so we could get this built. No matter where we look, we are looking for councils that are proactive and working in a commercial manner."

Steller has built its reputation on developing large, liveable spaces with a focus on functionality. Its unique, fully integrated business model is ideal for Melbourne's growth areas and attracts high-level owner-occupiers, which sets Steller up nicely for future growth.

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