

ACQUISITION DUE DILIGENCE

The £500,000 profit that disappeared before construction began

Why development profits are often lost before the site is purchased

The core idea

A development appraisal is not a prediction. It is a decision model built from assumptions. The quality of the decision depends on how hard those assumptions are tested before land is bought.

REAL-WORLD GUIDANCE FOR EMERGING PROPERTY DEVELOPERS

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Before the spreadsheet becomes a commitment

A promising site can generate a persuasive headline profit in less than an hour. Enter an optimistic sales value, a broad construction allowance and a convenient programme, and the residual looks attractive. The danger is not usually the arithmetic. It is the confidence attached to inputs that have not yet earned it.

This first edition examines the period when developers still have choices: before exchange, before a planning strategy hardens and before finance costs begin to run. Its purpose is simple—to help an emerging developer identify what must be known, what can reasonably remain uncertain and what price reflects the risk left behind.

The acquisition rule

Do not ask only, “Does the deal make a profit?” Ask, “Which assumptions create that profit, and what evidence would cause each one to change?”

One site. Six tests.

A viable acquisition needs more than a positive residual. Before commitment, the opportunity should survive six connected tests:

TEST	QUESTION TO ANSWER
Planning	Is the proposed use, density and massing supportable, and what conditions or obligations could reduce value?
Physical	Can the design actually be built on this site once access, levels, services, neighbours and ground conditions are understood?
Cost	Does the budget reflect the scheme as designed, including abnormal work, inflation, contingency and statutory costs?
Funding	Can the programme and cash requirement be financed on acceptable terms, with headroom for delay?
Market	Is the evidence behind sales values, rents, absorption and purchaser demand sufficiently local and current?
Exit	If the preferred strategy stalls, is there a credible alternative route that protects capital?

The seven investigations that change the offer

1. Title and legal

Confirm ownership, boundaries, rights, covenants, easements, overage, tenancies and any restrictions on access or intended use. A clean-looking site plan is not a substitute for the title documents.

2. Planning

Start with policy, site history, constraints and likely obligations. Test whether the development quantum assumed in the appraisal is defensible—not merely desirable.

3. Physical and technical

Review access, utilities, drainage, levels, structures, contamination, ecology, flood risk, neighbouring uses and party-wall exposure. Commission targeted surveys where the consequence of being wrong is material.

4. Market

Use comparable evidence carefully. Adjust for specification, size, tenure, micro-location, condition and timing. Challenge the sales period as firmly as the price.

5. Cost

Replace the single rate-per-square-foot assumption with an elemental view. Keep abnormal items visible, allow for design development and make contingency proportionate to the information available.

6. Funding and programme

Model interest on cash flow rather than as a convenient percentage. Include lender fees, monitoring, valuation, legal costs and the effect of delay before and after construction.

7. Exit and downside

Run a downside case before agreeing the land price. Test lower values, higher costs and a longer programme together; risks rarely arrive one at a time.

WORKED APPRAISAL

How £500,000 became £70,000

The following simplified example shows how a plausible acquisition appraisal can weaken as evidence improves. It is illustrative, excludes tax and assumes the land price does not change.

ITEM	INITIAL	REVIEWED	WHAT CHANGED
Gross development value	£2,500,000	£2,350,000	Comparable evidence and slower absorption
Construction cost	(£1,100,000)	(£1,275,000)	Abnormals, access and specification
Professional & statutory	(£120,000)	(£180,000)	Design, surveys, planning and obligations
Finance & sales	(£130,000)	(£175,000)	Longer programme and fuller fees
Land acquisition	(£650,000)	(£650,000)	Price already agreed
Indicative profit	£500,000	£70,000	Before tax; minimal resilience

The reviewed scheme has not technically moved into loss. But the profit has fallen from 20% to about 3% of GDV. At that level, a modest further movement in value, cost or time can consume the remaining return.

What really disappeared?

Not £430,000 of certain profit. What disappeared was £430,000 of unsupported optimism. The review exposed liabilities that were present in the deal all along.

Project lesson: the constraint hidden in plain sight

On an urban redevelopment opportunity, the initial concept made efficient use of the site and appeared commercially credible. Early attention focused on unit numbers and end values. A broader review revealed that servicing, neighbour interfaces and the route through planning were interdependent. Each issue was manageable alone; together they affected layout, programme, professional fees and build cost.

The lesson was not that the site should automatically be rejected. It was that the acquisition terms needed to reflect a more realistic route to delivery. The strongest response was to revise the design assumptions, make specific investigations a condition of commitment and retain a contractual route out if the key planning premise could not be supported.

Three practical moves

- Translate each major uncertainty into a question with an owner, evidence source and decision date.
- Link the appraisal directly to the design and programme; when one changes, update all three.
- Use price, conditionality and time to allocate risk—do not leave every uncertainty buried inside contingency.

Risk is not the enemy. Unidentified liability is.

Property development is not made safe by eliminating uncertainty; that would usually eliminate the opportunity as well. The commercial skill lies in identifying the few assumptions capable of changing the decision, investigating them in the right order and ensuring the land price rewards the risk retained.

A cautious appraisal can still be misleading if it applies arbitrary discounts everywhere. A useful appraisal is transparent: it distinguishes evidence from judgement, shows where contingency sits and explains what would have to happen for the base case to fail.

A better investment committee question

Instead of asking whether everyone is comfortable with the numbers, ask: “Which three assumptions could destroy the return, and what do we know about them today?”

Your next acquisition meeting

Take the accompanying 20-point checklist into the next site review. Do not aim to answer every question immediately. Mark each item as evidenced, assumed or unresolved, then focus time and professional fees on the unresolved matters with the greatest effect on value, cost or programme.

Independent development review

The Development Brief also provides independent, commercially focused reviews of site opportunities, development appraisals and acquisition risks. The aim is not to replace your architect, planner, solicitor or cost consultant, but to connect their findings to the investment decision.

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