BETTER BOARDS PRESENTATION

Solving the Dysfunctional Property Asset Dilemma

Finding solutions for the asset rich but cash poor non-profit organisation
by
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According to Pro Bono Australia "the *Australian Not for Profit sector is made up of over 600,000 organisations – everything from local neighbourhood watch groups to animal welfare organisations, overseas aid organisations, medical research groups, disability advocacy organisations, protectors of human rights, promoters of equality and champions of the disadvantaged and disenfranchised…".*

Not for Profit organisations underpin Australia's community. Provision of the valuable and essential services delivered by this sector is challenged by numerous factors, including often by where the organisation resides. This paper proposes that although the non-profit organisation tends to be housed in properties acquired through legacy and for various reasons their property portfolio grows more by organic transformation, that this should not be the basis for assuming that the organisation's property position must remain static. To better provide services and when applicable, maximise the value of the organisation's assets to better support service provision, a property strategy should be developed.

Whilst the sector is made up of a broad array of clubs, carers, foundations, institutions, welfare groups, support services and education, training and health organisations with differing interests, size, annual turnovers, focus and corporate objectives, there is one element in common to a large majority – they will own, rent or lease property to house their staff and operations.

Some non-profit organisations such as community housing groups and aged care providers may have property ownership and management as a central component to their structure, however most non-profits regard property matters as a non-core issue. Whilst this is not dissimilar to many companies that operate on a bottom line profit, generally there is a vast difference between how the non-profit versus profit sector both acquire and manage their property arrangements.

Most mid-sized and larger non-profit organisations will make their own, unique journey to their current property portfolio including legacy from beneficiaries and/or government; history such as church land and assets; and amalgamations and mergers from earlier service models or manifestations of the organisation. It is therefore fair to say that the property arrangements for non-profits tend to happen more by organic transformation than through commercial viability. In addition, such properties and arrangements are often accompanied by very strong cultural attachments within the group to an aspect of the property or its location or the cultural history that embodies the structure.

In addition, because of this relatively uncontrolled organic growth, if the non-profit is an organisation that delivers services from more than one location it will often also comprise a mixture of uses and tenure arrangements, for example freehold, leasehold, licensed or Deed of Grant in Trust plus rent-free or even sometimes there is nothing in writing!

The net result for the organisation and its CEO is operating in a fragmented capacity out of multiple smaller locations or consolidating into legacy premises that are now poorly adapted for their current use.

To demonstrate how non-profit organisations with challenging property portfolio dilemmas can achieve more suitable and advantageous positions, two Case Studies will be outlined:

<u>Case Study One: MontroseAccess</u>

MontroseAccess is a non-profit organisation delivering support services to clients up to 18 years of age with physical disabilities. These services include occupational, physical and physiotherapy, orthotic services, family support and respite care. They have a legacy of buildings including a recycled school that serves as their administration building headquarters set on a large 3.5ha site overlooking the Brisbane River in a residential suburb in south west Brisbane.

Case Study Two: Brisbane Youth Service (BYS)

BYS is a grant funded non-profit organisation providing support and counselling services for homeless youths from 12 to 15 years old in Brisbane. Their rented facilities in Fortitude Valley were both unsuitable for their ongoing services range and the residential nature of their neighbourhood. Of note is the fact that they were relocated a few years earlier when the State Government required their previous premises for redevelopment for community housing!

The financial downside of operating in a range of legacy buildings owned by the organisation is either regularly deferring maintenance or expending money on the cost of adaption and maintenance of what are fundamentally inappropriate buildings, often in poorly serviced locations. This means that the real cost of the property's inefficiencies are lost in the 'miscellaneous' column in the accounts, and there is no transparency of the real cost of property in running the business. Though the commercial reality is that if the costs are not being measured then they cannot be efficiently managed.

The backlog of matters which accrue from historic property arrangements are often only recognised or acknowledged by the CEO / GM and the Non-profit Board when specific issues start to become apparent. The reasons they are overlooked are similar to the challenges faced by CEOs from all sectors - juggling the demands of resourcing, staff, clients, regulations, technology and finance – but are compounded by the parameters of limited support resources such as is often the case for those in the non-profit sector; and the more typical approach of the non-profit to regard their property portfolio as in a static condition for the organisation due to the legacy factors as previously mentioned.

A common characteristic of many non-profits that have accumulated a range of property assets over time is the organisation 'growing into' their current configuration. Without a comprehensive property management plan, increased administration of service functions can take over other under-utilised spaces in buildings or the organisation is allowed to 'creep' into smaller commercial office units rented or sub-leased 'for the short term' but by default continued indefinitely.

Another example is premises that may be leased for one particular type of service supported by a government grant and the lease has some of the term remaining when the grant funding ceases, so other users migrate into the space.

Case Study One: MontroseAccess

An example of service area migration creep is MontroseAccess where the Therapy Department ended up moving into disused school classrooms on their site.

The long term net result for an organisation with a disparate property portfolio is either:

- Operating in a fragmented and poorly coordinated manner from multiple smaller locations or;
- Consolidating into one larger legacy premises that is poorly adapted for the current issues or worse
- Doing both of the above

The downsides for the organisation that finds itself in these circumstances include:

- Much higher than necessary property outgoings costs, i.e. rent, rates, electricity, gas, water, cleaning, waste removal, landscape and building maintenance
- Inefficiencies in staffing costs from duplication of roles in multiple offices
- Inefficiencies in staff time in managing multiple sites
- Poor corporate communications and internal business process
- Poor staff working conditions resulting in higher than necessary staff turnover and inefficient working practises
- Higher IT costs due to complex network requirements or poor IT services and capability
- Difficulties in attracting and keeping volunteer staff due to poor working conditions
- Inefficiencies by being in less than ideal locations for customers / clients and staff for the current service model
- Unnecessary expenditure on the adaption and maintenance of inappropriate premises and internal fit outs
- Regularly deferring maintenance

Once the matter of a property issue does become sufficiently serious to warrant the CEO's attention, it is often the time to take a broader look at the property portfolio and to start asking questions about its suitability.

The types of issues that might arise for a CEO or Board that make them question their current portfolio composition or management might include reactive issues such as:

1) Cost blowouts in property outgoings
2) Plant and equipment failures, roof leaks etc. from deferred maintenance
3) Corporate response required to property Resumption Notice or Town Planning rezoning notice

Or opportunities such as:

4) Further sourcing of Government services to non-profit sector resulting in new service agreements and grant funding
5) Changes in funding models requiring new business development, for example the NDIS
6) Changes in services delivery practise by the organisation
7) New services extensions to existing programmes
8) A property lease expiry
9) A grant of $ or property as a philanthropic donation
10) A merger or acquisition of another organisation or group with property assets (or liabilities)

<u>Case Study One: MontroseAccess</u>

In 2011 the Brisbane City Council 'down zoned' their property from 'residential' to 'community uses' under a new Local Plan, notwithstanding MontroseAccess' objections to the changes. This down zoning devalued their landholdings by many millions of dollars. The immediate task was to secure MontroseAccess' full development rights for their land whilst they continued to plan their long term strategy.

<u>Case Study Two: Brisbane Youth Service (BYS)</u>

BYS recognised they needed to relocate to a freehold property in a more appropriate location and adapted to their needs. This required the preparation of a Business Case to Government for a Capital Grant to part fund their relocation, management of a Due Diligence study and review of prospective purchase opportunities for their new property.

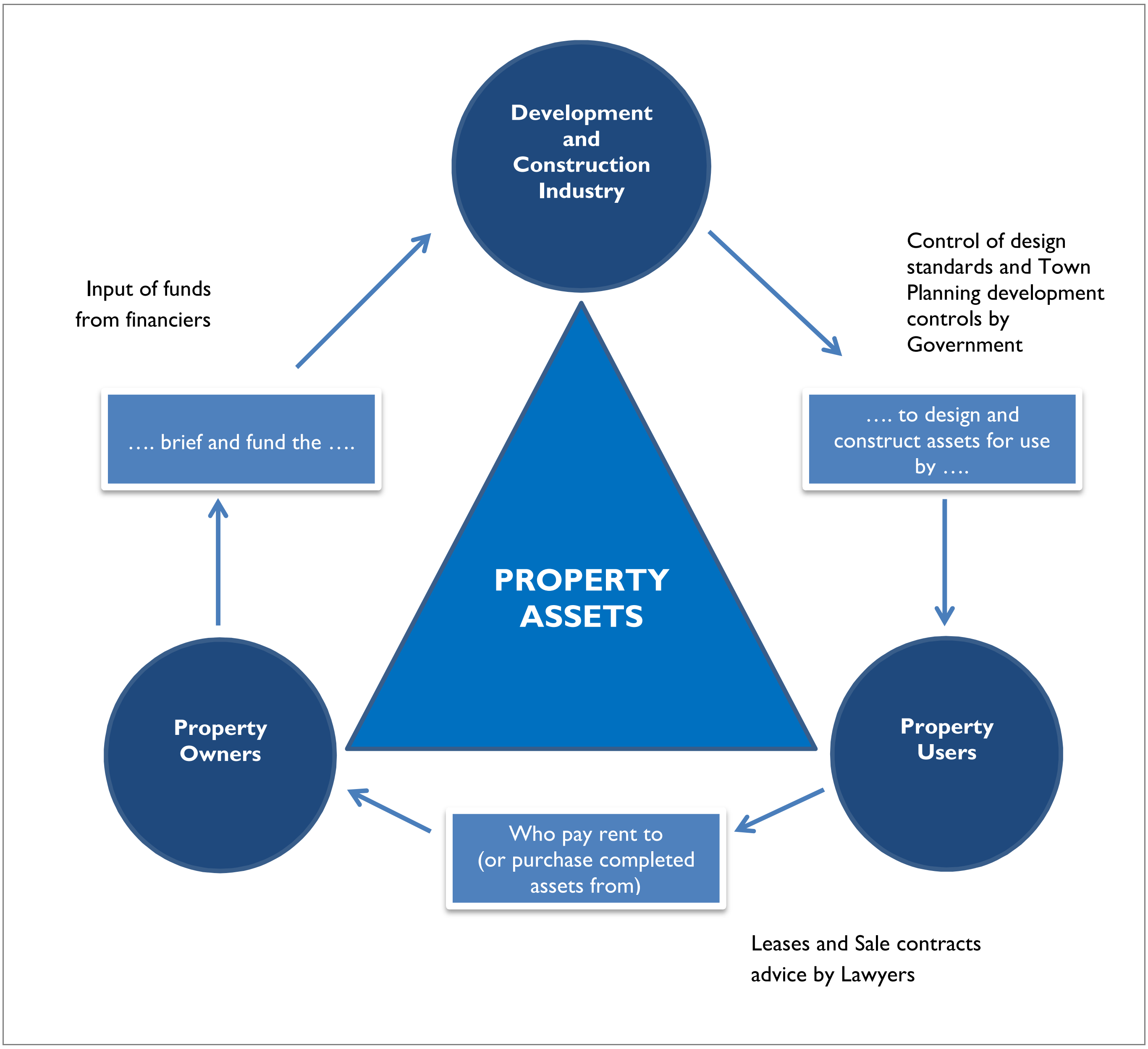
In this due process, the CEO is placed in the position of providing their Board with various businesses cases relating to the organisation's property portfolio. Recommendations in such reviews may include:

- identifying investment opportunities and sites
- preparing feasibility studies
- site acquisition
- negotiation with statutory bodies
- managing the delivery of new premises, and
- overseeing the marketing and disposal of the existing property assets.

The starting point for the business model review is identifying their 'reason for being', that is their Mission, Vision and Values. For all organisations, this is reflected in the services that are being delivered to clients and the need to support this delivery through management strategy and internal and external resources. The starting point should <u>NOT</u> be the existing property assets. Once the service delivery model is understood and identified, only then can a suitable property management plan be prepared.

At this point it is appropriate to explain how the property industry operates in a long term, sustainable manner to enable the non-profit organisation to better choose between being a property OWNER versus a property USER. There is generally little financial or other benefit in being an OWNER if your long term strategy and customer service needs can be met by just being a property USER.

In simplified form the property industry can be viewed as follows:



To prepare a business case and an action plan for a property portfolio rationalisation there are a range of actions and outcomes to be considered. These may include:

- Identifying investment opportunities and sites for new premises
- Undertaking feasibility studies
- Acquiring new properties, due diligence studies
- Developing new properties or refitting existing
- Leasing and tenancy negotiations
- Disposal of redundant and surplus to requirement assets

It is worth dwelling on the last point briefly. Maximising the sale value of a property asset that is surplus to requirements can be a very commercially attractive avenue. Whilst a non-profit organisation's land and buildings may be physically well located, their historic use may mean they are not zoned under the larger Town Plan development controls for the 'highest and best use' or it is possible some earlier uses have burdened them as contaminated sites or with some historic or natural vegetation mapping town planning constraint. In these cases it is usually worthwhile obtaining some expert advice as to how these matters may be managed and the commercially unattractive features of the site be mitigated or removed entirely, and at what cost, before the assets are advertised for sale. This will usually not only produce a much greater return, well in excess of the cost of removing the burden, it will also result in a quicker sale process.

During the rationalisation process it is important for the CEO to ensure there is regular and meaningful consultation with the affected stakeholders including:

- Board of Management
- Staff
- Client / customers and their supporters / friends and families
- Donating organisations and individuals
- Volunteers and other support groups
- Local community around particular premises or sites
- Local, State and Federal Government
- Fundraising granting and service agreement bodies and institutions
- Adjacent landowners
- Landlords and body corporates

<u>Case Study One: MontroseAccess</u>

Action

RCP recommended MontroseAccess took steps to secure their previous development rights, (or obtain compensation for their loss), by making a Town Planning application under the Superseded Planning Scheme rules of the Sustainable Planning Act. Consultation with the Client's legal advisors confirmed the process required to secure their rights and advised immediate action as the superseded scheme process is time barred.

This advice was accepted and RCP then selected and directed a consultant team of Town Planner, Urban Designer, Engineers, Ecologist, cost planner and Valuer to prepare the necessary Town Planning Application for a Development Permit for a residential subdivision which is considered to be the highest and best use of the land.

Result

The Notice requesting consent to lodge a full site DA Development Permit application has been approved by the Council. This secures all of the previous development rights for Montrose. RCP are now implementing the strategy of relocating the respite, therapy and corporate services into new facilities elsewhere. This includes overseeing a land sale campaign with the appointed Estate Agents now conducting the sale in addition to negotiating with the State Government for land at the Yeerongpilly Urban Renewal precinct for the new Respite Centre and an Agreement for Lease arrangement for a 1,400m^2 NLA new build office in Darra for the Therapy and Corporate Admin functions.

Case Study Two: Brisbane Youth Service (BYS)

Action

Initially RCP gathered the market evidence on property costs and town planning issues refitting costs and then used them to prepare a Business Case document for BYS to present to Government. This resulted in the Government approving a $2m capital grant to BYS in late 2011. A suitable property on Abbotsford Road was identified in early 2012. It was put under contract in February 2012 with a 60 day due diligence period to:

- Execute the necessary funding agreements with the Government and a bank mortgage
- Carry out a thorough due diligence study on the existing property including legal / property searches and a building and site condition survey
- Prepare concept designs and confirm a budget for the necessary renovation works

RCP immediately appointed a consultant team comprising architects, town planner, quantity surveyor, building services engineers, civil / structural engineer and environmental specialists and certifier to inspect and report on the existing building and provide cost estimates and scopes for the renovation works.

Result

BYS was successfully able to complete their financial negotiations and secure the offers of a Grant and Mortgage (however the Grant Offer was withdrawn by the incoming State Government following the State election).

So, in summary, the non-profit organisation can achieve an improved outcome for their property portfolio. Although the process to undertake this seems challenging, with the right focus and support an appropriate property strategy can be developed.

Decision making in operational areas completely unrelated to the organisation's core business is daunting for many CEOs but potentially more difficult for those managers working under the parameters of limited resources such as is often the case for those in the non-profit sector. However, putting this area into the 'too hard basket' and not facing the property portfolio dilemma will only restrict the potential growth of the valuable service offering by tying up resources with inefficient and under-performing property assets. The best approach is to undertake a holistic review of the organisation, the business model and the service delivery strategy and to develop a property strategy that will support it, not the other way around.

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