Asset 360 Report

Where we take
Clubs, NFP's and broad portfolio investors
behind the property market

Special Feature:

A look inside the biggest property players in the country and how **due diligence** plays a key role in acquiring, developing and managing their assets

May, 2019

Table of Contents

Executive Summary

The Asset 360 Report takes Clubs, Not for Profits (NFP's) and broad portfolio investors behind the property market.

The May Edition, is a Special Feature. It is a look inside the biggest property players in the country and how due diligence plays a key role in acquiring, developing and managing their assets.

Suburbanite's Anna Porter is joined by John Waight, Tracey Lentell, David Knowles, Richard Batten and John Fallon to explore the topic of due diligence and its role in property.

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A prelude from Anna Porter – Director of Suburbanite and Market Commentator

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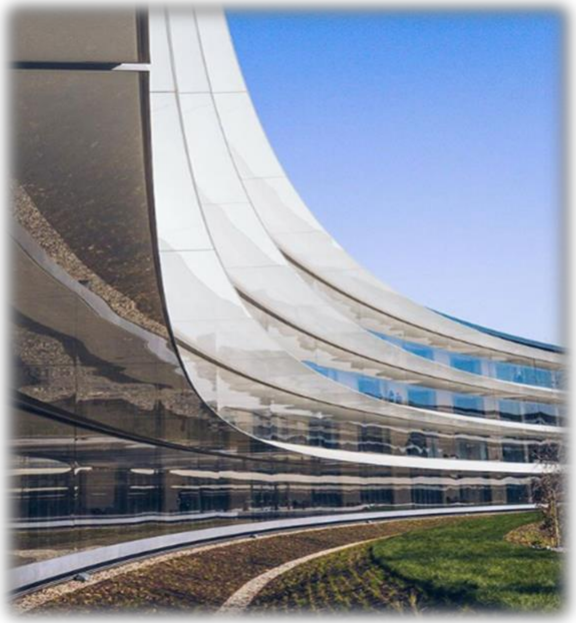
The 'Shared Economy' is taking over an office near you

This edition we are looking at some of the biggest players in the property sector and how due diligence plays a role in their decision making.

Even with a huge amount of due diligence in place, things can be missed, budgets blown out and good money can be spent to bad if the project isn't managed in the right order of events.

A prime example of this is the Apple Park in Cupertino in the US (pictured below).

In 2013, they started construction on the largest office precinct on the globe, designed to house 12,000 employees in the one building and cost an estimated $5 Billion.

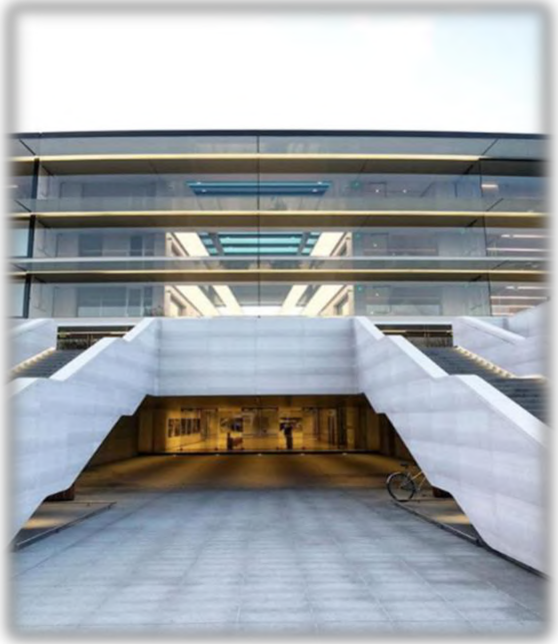


So, with such a big budget and so many consultants working on this world leading space, did anything go wrong? We turn to property expert Anna Porter of Suburbanite Asset Advisory for some insights into the success of the project by one of the biggest property plays in the world.

> "The estimated budget started around $3 Billion, but the final figures are estimated to be up around the $5 Billion mark," says Anna Porter of Suburbanite Asset Advisory.

Whilst this sounds like a staggering number, it represents less than 2% of Apples cash reserves, and for a company valued at $900 Billion in Feb 2018, this build is relative to the size of the organisation.

"Apple park is an approx. 260,000 sqm floor space laid out in a giant ring, with curved walls 4 storeys high, constructed from the largest panes of curved glass in the world," continues Porter.



"It is home to the largest solar farm in the world, with 100% renewable energy, on 175 acres of land, surrounded by 9000 drought resistant trees, 1000 bikes on site for getting around the 3.6km's of walking/riding and running tracks, and 80% of the site is covered in greenery. There is also a 2-storey yoga facility, 9,000 sqm gym, a 4,000-person café and it took an estimated 6 months to move all of the 12,000 employees into the facilities," says Porter.

Porter continues, "There were certainly some failures in this project, that came through poor planning and lack of foresight. The first big one was clearly the budget blow out. Whilst we typically expect budgets to blow out on major projects, this one was significant. We like to allow a 10%-20% contingency on larger projects, but this blow out represents about a 40% differential, which is outside of acceptable standards on any project."

> "The second and lesser known issues hinge around how the people use the spaces. The open plan working environment has reportedly created some disharmony with staff. Recent studies have shown that open plan offices can lose people up to 28% of their '*productive time*' through regular distractions from other staff," says Porter.
>
> "Whilst these set ups have been popular in recent years with organisations to try and save money on real estate space, they do come with some challenges. It is important to create breakout areas, quiet zones, phone call precincts and a few private meetings and working rooms within reach of each employee if dealing with larger groups. It is also recommended to promote work from home days/flexi days to accommodate times where the space is too crowded. Staff will appreciate this and productivity will rise."

Anna also noted that they have seen all too many times organisations do this poorly and lose staff over it.

"Some organisations around the Sydney CBD have so many staff all crammed into open spaces and hot desks that it becomes a first in best dressed scenario, but if you get in too late (like your actual start time) or you are out at meetings first thing and get to the office late morning, you don't have a desk. This surely can't be good for staff morale and the cost of losing key people," finishes Porter.


Image: Open plan office space (by Pinterest)

The other issue Porter highlights she says arose from the design phase and the excessive amounts of glass used internally. This has led to staff walking into glass doors and walls constantly, causing injury to staff members and even leading to 3 employees calling 911 from glass related injuries.

> "This is clearly an issue with the design and how the space will be used. Often offices use opaque glass internally to avoid this problem, as well as provide some privacy. The fact that the designers failed to see the challenges with this in the design phase shows a disconnect between the consultants and the end user. When we undertake any project with our clients, we ensure we speak with the end users or reach out to the market place of end users to ensure that the project will deliver on functionality and design," states Porter.

So, as you can see, even the big boys face significant challenges when embarking on a major property project. Porter believes this is due to the fact that they aren't '*property people*' and it isn't their core business.

They will often make mistakes along the way if they don't surround themselves with the right teams and people to execute such a major project.

> "Remember, this isn't their day to day business, they are in tech. So, we can't stress enough how important it is for non-developers/non-property companies to engage the right people to drive the strategy and execution of any project they embark upon," says Porter.

Major Renovation Projects and managing multiple revenue streams - Getting it right

A dream renovation or redevelopment project can quickly turn sour should clubs and their boards not be equipped with the skillset and support to get it right.

Tracey Lentell, Director of Design, Culture and Change and former CEO of Moorebank Sports Club Group was able to increase revenue by over 150% and grow assets by over 400% in her previous role.

At the helm of a major club development and renovation, Ms Lentell highlights the importance of knowing and understanding the relevant demographic and links this to the success in any renovation or business.

> "I have for the past 11 years in my most recent CEO role had a model based on providing a female family friendly venue approach to design and service experience as parents want to feel like they can relax whilst their kids are engaged with the environment in a positive way," said Tracey Lentell.

"Women have always been the major influencer in purchasing decisions within the household but this is now shifting to the kids. Understanding kids as customers is a relatively new concept for some but the shift is changing and now society supports children as active decision makers. You need to ensure that you accommodate for the kids and the parents will be happy."

A long-term strategic development or master plan is also critical for any business to be successful.

Tracey built a female family friendly plan as her business case which was based on market demographics. This was included in the strategic plan and proved not only crucial but critical for the success of the club.

With this came some lessons for Ms Lentell, one in particular she has opted to share.

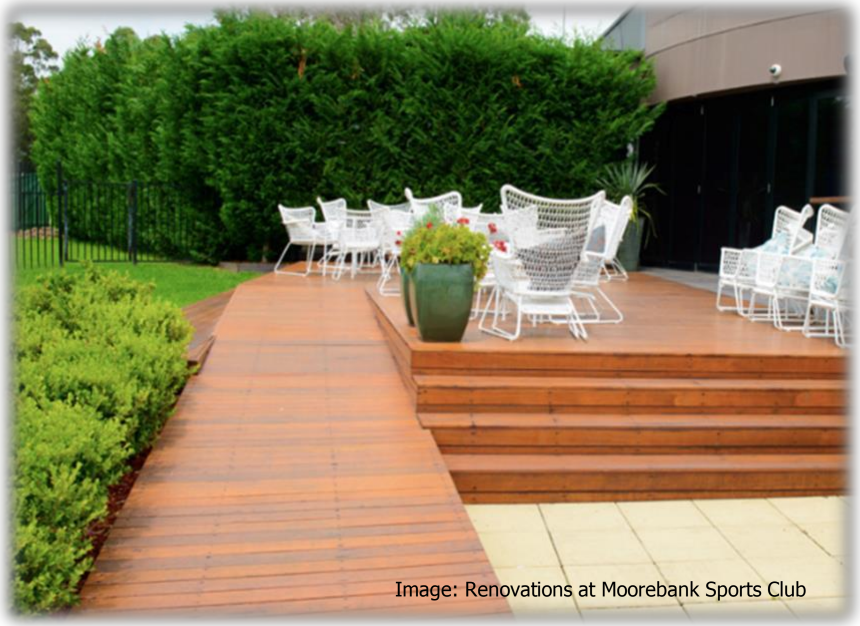


Image: Renovations at Moorebank Sports Club

"While going after a particular market like this you need careful planning, as often the family market conflicts with other areas of the business like bars, drinkers, the table of knowledge and gaming. However, if it's done right you can balance all of these groups and benefit from trade throughout all phases of the day and managing the flow of these groups. For instance, having a fully supervised play room off the restaurant will attract these family groups to this area," Ms Lentell warns.

Current Australian social media statistics indicate Facebook has over 15 million Aussies active each month and more than 9 million for Instagram.

At the forefront of the club renovation was the customer experience which Tracey believes can only be formed by the Club's story, brand identity, exceptional service, staff, facilities and design.

"This development had to give people an experience they are not experiencing at any of my competitors," said Lentell.

Given most people have a big screen TV, beer and wine in the fridge and UberEats on demand (thank-you share economy), the experience they receive at the club is what's going to get them off the lounge and to the venue. Couple this with social media, through the likes of Facebook and Instagram the quality product and experience are then presented as a social destination experience and widely shared.

The grand size and scale of this specific club renovation was very fulfilling on its own however Tracey's expertise in customer experience also meant she was fulfilled by the sheer look of delight on customers faces when they saw the new club.

Tracey was able to predict their needs and wants and go above and beyond to deliver this whilst staying on track with timelines, furniture delivery schedules and budgets. The club was also still trading and reporting a profit whilst the renovation was undertaken.

> "Customers expect great food and drinks, but they also expect to be wowed by an inspiring venue and that's where I love to stay ahead of trends so that I don't look like the club down the road," says Ms Lentell.

It's also critical to develop relationships with people that are good at what they do and can deliver exceptional results.

Tracey's philosophy is to "design for the 99% of people that appreciate nice things, don't worry about the 1% that may take the GHD from the ladies' toilets."

Whilst designing a female family friendly club, it was necessary for Tracey to deliver on the small things that females appreciate. In order to set her club apart from the competitor down the road, she put GHD's and hairdryers in the ladies' bathrooms.

Delivering on a project of this size can be quite daunting, hence why it is recommended to arm yourself with a team of trusted professionals that come well recommended or via reference checks.

The former CEO explains this team will be relied on for areas you are not proficient in and acknowledges that CEO's can't be experts in all areas so it's important to engage people that can take you along the way and know they have your best interest at heart.

"Work with people you can trust and if you don't know who to use, ask around, ask someone else who has done this before," says Tracey. "Often Boards don't like to engage 'consultants' but believe me you need to use trusted advisors at certain times as you could easily be taken for a ride."

A project of this size will entail an army of professionals from the lawyer to check contracts, interior designers, quantity surveyors, builders, banks and other consultants.

"It's important to engage people that can help you with delivering the master plan while staying on time and in budget – you may need to engage a specialist consultant that can help you with financial due diligence, pre-lending reviews or feasibilities for example. This is especially important in this day and age with so many social and commercial trends around, you need to make sure that you have an idea that will be successful and not an idea that works down the road but not for you," warns Tracey.

Two Top Tips from Tracey Lentell for other clubs embarking on this process:

1. Prepare your masterplan, business case, know your market, conduct demographic and market research and analysis to gain an understanding if your proposed plans will work based on the ROI.

"Visions are great but they need to be responsive to your customers' expectations and essential due diligence is required to ensure the project will be successful," says Tracey.

"Don't copy the Club up the road, part of any successful development is keeping an eye on trends and design which often includes a research tour of other venues, Clubs, Pubs, restaurants to gain insight into what other hotspots are up to. These tours are important to the due diligence process but it's not about going back and copying what you have seen, you need to work out what's relevant to your market and the experience you want to provide."

'The Backyard'

A 'haven' for kids with 3 cubby houses, climbing gym, sand pits, 20 free-range chickens, rabbits, budgies, guinea pigs and 4 mini goats. The space also has large comfortable places for the mums and dads to sit and relax knowing their kids can't go anywhere.

Tracey warns that if you don't understand your demographic, you may not have a successful venture. She uses the example of a part of the initial development which included a concept called "The Backyard". Whilst this has been successful for her venture, it may not work in ventures where there are other demographics.

2. Don't leave it until it's too late, start now as the retail/pub sector is catching up and now offer bigger competition for the market share of the entertainment market.

Tracey explains the retail sector are now mini communities and are competing against the Club space for providing a community hub that offers entertainment, bars, dining, experiences making the dollar spend harder to retain. Similarly, pubs have always provided good food but they are now ramping up their customer experience to a new level and starting to catch up and over take clubs, they now target the families and not just the tradesmen.

"Pubs are easier to gain access too, there are no strict check-in procedures or license checks," says Tracey. "They are very appealing to families with kids play areas, ping-pong tables, pool tables and are more forthcoming to change. Pubs aren't worried about what the table of knowledge will think about proposed changes and be slow to act. I have experienced too many clubs that wait until it's too late and they don't make change quick enough and then end up closing the doors – it's getting to the point where Clubs have to change or die," concludes Tracey Lentell.

360 Degrees on the assets in a nutshell – Tracey Lentell, Director of Change, People & Culture:

1. Do thorough market research and analysis before you start the project, don't use a company that will offer self-serving reports to win the construction contract
2. Understand your profit V's purpose position & set up that framework
3. Joint Ventures (JV's) come with their own set of risks. Developer V's industry specialist will result in very different outcomes. Ensure there is an alignment of core values
4. Manage execution risk by selecting the right builder or developer with robust due diligence and no vested interest in winning other contracts for the build based on their advice

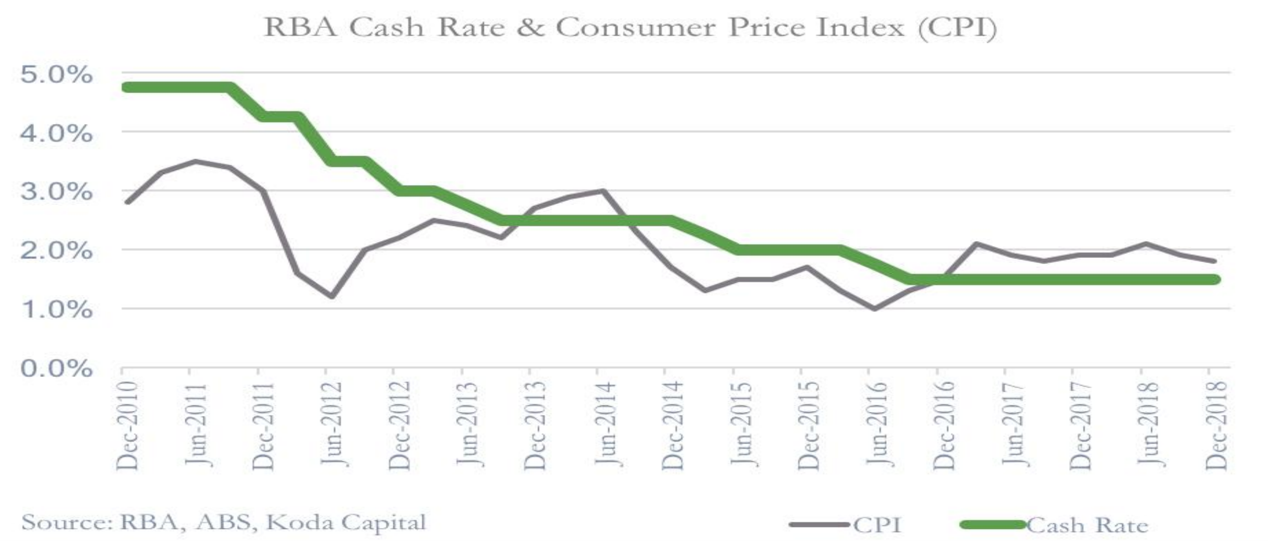
Is my Not for Profit Lazy? How to turn lazy money into a solid investment

For the average NFP, dealing with cash is often quite a challenge. They have to reconcile a number of different concerns such as their operating cash needs, the need to maximise interest returns, overall liquidity management considerations and often the need to structure liquidity around future liabilities and commitments.

It is also a common obligation to need to hold cash for prescribed purposes like a building schedule or because a condition tied to a philanthropic donation or government grant is also lingering.

David Knowles, Partner and Head of Philanthropy & Social Capital at independent investment advisory firm, Koda Capital, has acknowledged that the cash issue has become even more challenging in recent years, as interest rates first fell and then hovered around historic lows.

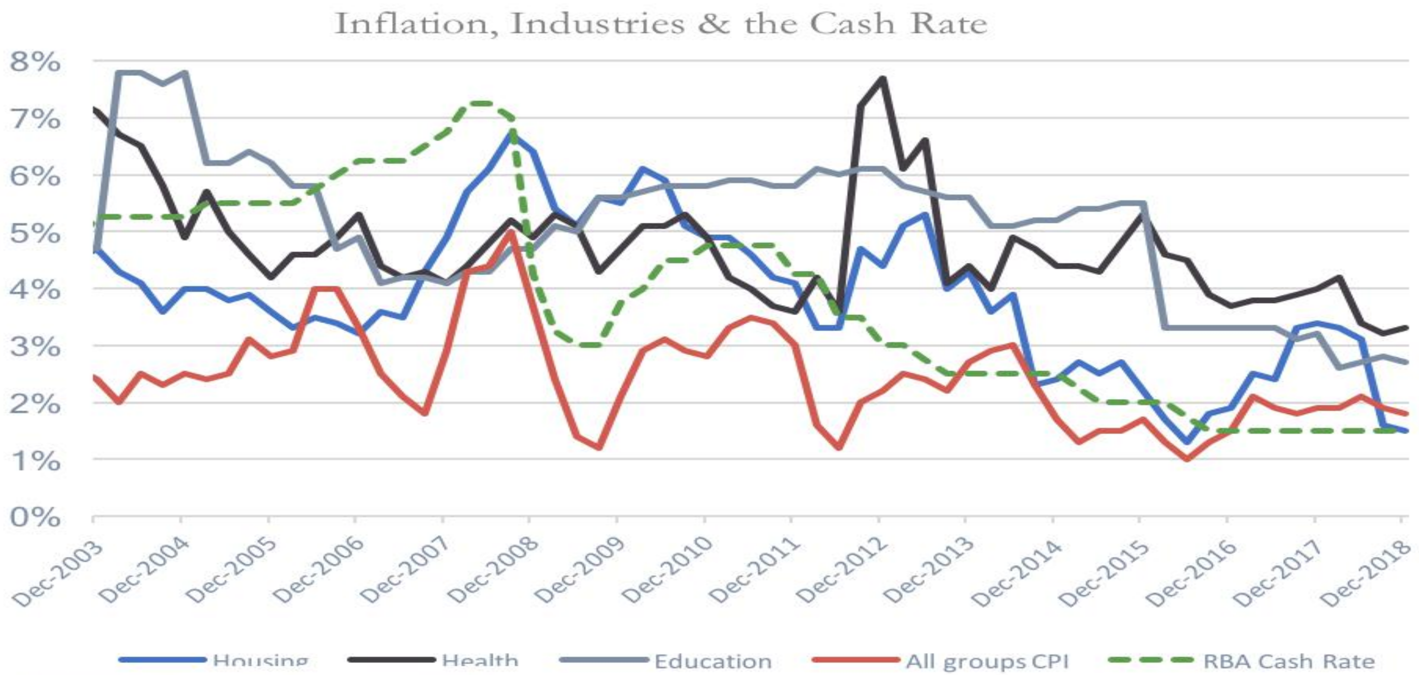
The following chart from Koda Capital's NFP Investing Masterclass series shows that today, interest rates remain low and the cash rate is tracking just below CPI.



"The idea that the return on cash might not even keep pace with inflation increases the likelihood that surplus cash and cash that's likely to be held for many months or years might fall into the 'lazy' category," says Mr Knowles.

"To make matters worse, CPI is not a reliable indicator of inflation for most NFP's, even though it is the one most commonly used."

The chart below shows why CPI is not always an appropriate measure of inflation.



Source: RBA, ABS, Koda Capital

> "You can see that many NFP's operate in sectors with a rate of inflation well above CPI and above the cash rate. The danger for NFP's should be obvious: holding surplus cash on call or in term deposits may mean going backwards financially in real terms, after taking into account the inflation rate that applies to their business," projects David Knowles.

On the subject of cash, Mr Knowles has reiterated a quote from Warren Buffet: "People who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value."

Knowles explains the quote doesn't necessarily say an investment in cash is inherently bad, in fact, on occasion it may be wholly appropriate or necessary.

> "The issue is more that investors need to be aware of the consequences of their actions even when they believe they are avoiding risk. For many medium and long term NFP investors, inflation is the silent enemy," Mr Knowles further explains.

So, what crucial question is an NFP to ask when they are trying to work out whether they are sitting on lazy cash?

NFP's are urged to ask 'Are we being too conservative?'

"One of the most common statements made by NFP board and committee members is 'We are very conservative.' In this context, the word conservative means something along the lines of 'I do not want to risk losing any money' or 'we cannot lose any money'.

This is completely understandable and in many cases, it isn't just appropriate to be conservative but mandatory," says David Knowles.

> "However, many NFP's manage their resources in an overly-conservative manner, either because committee members are worried about their own legacy (no-one wants to leave an organisation worse off) or because they fail to fully appreciate the long-term negative effect of overly-conservative investing."

The problem with being overly-conservative is that cost inflation becomes the enemy.

> "If an NFP with scope to put cash to better use, doesn't, it might be guilty of being 'lazy'. Being lazy with cash in this way might be justified by the NFP as effective risk management. In the medium to long term, it is more likely to be judged as a missed opportunity."

Due diligence is critical for all investing. This is no different for investing lazy cash.

As the saying goes, "You've met one NFP, you've met one NFP."

David believes every NFP is different and in some way unique so, the approach to investing lazy cash should be based on the particulars of the organisation.

> "For all organisations, one of the very first questions has to be 'Why are we investing?'. This is where they identify the specific reasons they are investing the organisation's resources and not doing something else with it instead," says Knowles.

If you don't know why you have the money, how can you hope to invest it properly?

"Whilst it may sound obvious, many NFP's either struggle to define or agree on the true purpose of the money they hold. Many others lose sight of this purpose from time-to-time for one reason or another. Whatever the purpose, it must align with the NFP's core mission. This is the starting point and it means due diligence begins by looking at what the organisation and the money is there to do and for who," advises David Knowles.

What is the fundamental task for NFP's to undertake before investing anything? Comprehensive risk profiling.

According to David, the questions to ask in this risk profiling include:

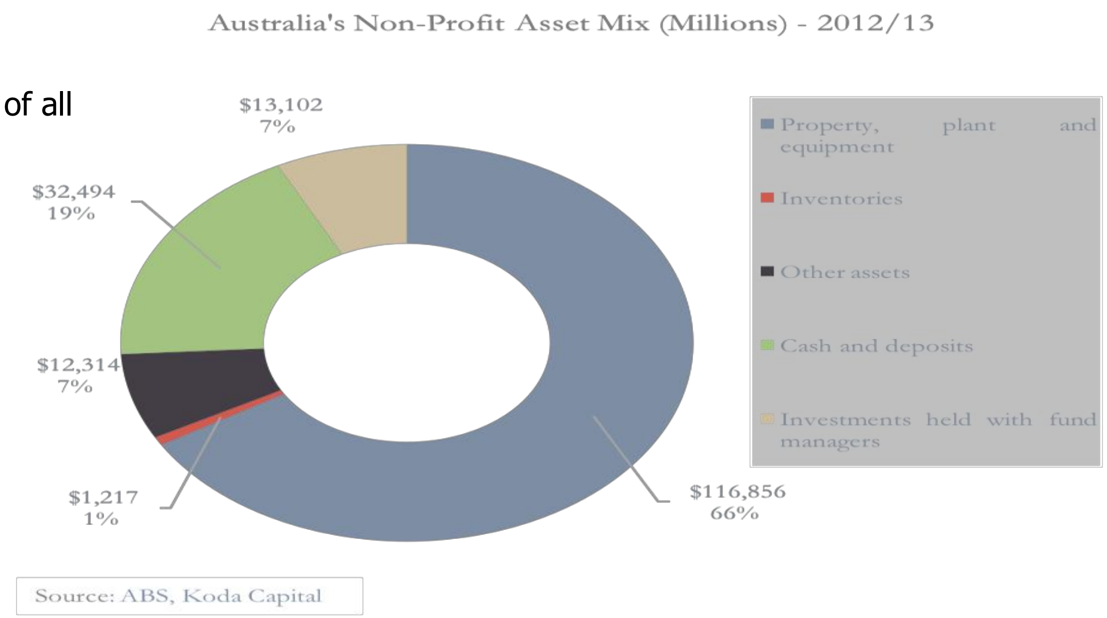
- What is the right level of risk to assume?
- What returns can we realistically expect with this level of risk?
- What level of volatility can we tolerate?
- What effect does our investment timeframe have on our approach?
- How do we match our approach to our spending and liquidity needs?

"To help with this kind of profiling, NFP's with over $1 million to invest usually look to appoint an investment adviser," suggests Knowles.

"When selecting an adviser, it is important to look for one that is independent and experienced in this kind of work. Ideally, the adviser will have a strong focus on advising NFP's and will be able to understand how NFP's operate. They should also have the ability to do much of the heavy-lifting that comes with the due diligence process – that is, the ability to help with objective and policy setting, risk profiling, strategy formulation, asset allocation and cash flow management not just simple investment selection.

As can be seen by the chart to the right, two thirds of all Australian NFP assets are held in property, plant and equipment, so a lot of money is invested in that asset class.

Additionally, 19 percent of Australia's non-profit asset mix sits in cash.



David suggests: "Any decision to invest cash in an asset class outside of property represents an important strategic decision which in turn requires an understanding of the asset classes you are going to invest in as an NFP. The level of this understanding should be no lower than it would be for a property investor about to invest cash into the property market. If an NFP does not have this level of understanding – and most don't – then appointing an adviser is the right thing to do."

Having completed the due diligence mentioned earlier, an NFP should have a clear idea of its objectives and its risk profile.

> "It is only after the due diligence that an NFP should be looking to pick the right strategy. As Leon Trotsky said, 'You may not be interested in strategy, but strategy is interested in you'. Obviously, good investment outcomes have their basis in sound strategic choices that can be clearly articulated," says Knowles.
>
> "The right strategy takes into account everything the organisation is, needs and faces. Returning to what Trotsky said, it is almost impossible for an NFP investor to have no strategy – the challenge lies in consciously developing the right strategy and then ensuring you actually follow it."

"This seemingly simple task requires discipline and sometimes courage, particularly for risk-averse NFP directors. Once an NFP has adopted a strategy it is important to follow it unless there is a rational case for adopting a different one. In that scenario, it is a case of consciously adopting another one, not just ditching the current one, or jumping onto a passing bandwagon."

If an NFP is sitting on lazy cash, there are a few reasons to consider investing and plenty of opportunities to turn investing into a 'good' thing.

Did you know? There's no difference between how much cash an individual and an NFP needs in order to turn lazy cash into a good investment.

However, some individual investment opportunities are subject to a minimum investment amount and most investment advisers servicing NFPs will only manage portfolios above a certain value.

Note: At Koda Capital, $5 million is the minimum investment, with some exceptions

BONUS: How much surplus cash would an NFP investor need to invest lazy money well?

According to David Knowles, there is no set dollar figure, but the amount does have to be significant enough to the NFP for the exercise to be worthwhile.

"Investable reserves of any kind are obviously valuable, but more so when you consider some of the facts," says Knowles.

"For most NFPs, reserves remain outside the tax system, meaning there is no tax on income received or capital gains realised. Imputation credit refunds, accessible to some NFPs, are considered a valuable source of additional income."

"Investment income is passive income and together with capital growth its production allows an NFP to generate additional funds (often untied) for the cost of a management or advisory fee. Reserves and endowments also help make NFPs more sustainable and increase their self-sufficiency."

So, if an NFP is sitting on lazy cash, there are a few reasons to consider investing and plenty of opportunities to turn investing into a 'good' thing.

360 Degrees on the assets in a nutshell – David Knowles, Koda Capital:

1. CPI is not a reliable indicator of inflation for NFP's, but inflation is a silent enemy
2. NFP's must ask if they're being too conservative
3. Due diligence is critical for all investing, same for investing lazy cash
4. Consider undertaking comprehensive risk profiling before investing anything

If McDonald's doesn't land bank how do they continually pick great locations?

When a small asset-holder embarks on an acquisition it can sometimes be a miss. This miss can be turned into a hit by following in the footsteps of the big boys of property.

We turned to John Waight, Assistant Development Manager of Real Estate NSW/ACT for McDonald's Australia to share some tips for asset owners.

Due diligence is crucial in any property decision and this is no different for benchmark organisations like McDonald's.

Mr Waight said: "The things we consider for potential locations include the availability of sites, suitable zoning, and access to major thoroughfares, population growth and local demand."

> "Our core business is freestanding restaurants with drive thru, so we primarily look for sites that can accommodate that model. However, we are able to adapt in a number of different ways to ensure we can continue to grow."

Mixed-use development, highway service centres and smaller format retail sites in dense urban areas and premium railway stations are included in the integration for McDonald's.

As visibility and access are paramount to McDonald's, John Waight has indicated they will likely not go ahead with a site if it has a combination of poor visibility and poor access.

> "However, we can compromise on a case-by-case basis and ultimately it comes down to the strength of the locality – our customers are resilient and tend to find us, but we want to make it as easy as possible to ensure they have a great experience," says Mr Waight.

Interestingly, McDonald's Australia does not land bank which is contrary to what a lot of people believe.

Alternatively, they like to pursue opportunities that are live and are able to sustain development in the short term.

> “We do have a long-term development strategy, meaning we do consider sites now that have development potential over the next couple of years. We consider buying key sites early on a case-by-case basis and particularly in areas with defined future population growth potential,” explains John.
>
> “We remain conscious of making the best real estate decisions to serve our customers as well as the wider stakeholders within the business.”

Key piece of advice for smaller asset holders from John Waight:

> “Working with strong development partners and getting the right advice can make all the difference in securing top tier users and ultimately the best outcome for your proposed development in the short and long term,” advises Mr Waight.

360 Degrees on the assets in a nutshell – John Waight, McDonald's:

1. Make real estate decisions to serve both customers and stakeholders
2. Consider working with a strong development partner and get the right advice
3. Look for sites that accommodate your core business model and align with what you do
4. Do your DUE DILIGENCE


Lithgow Council issues fines for illegal asbestos dumping

Unpacking Asbestos: How Asbestos Management applies to all workplaces in NSW. Are you getting it right?

Workplace closure. Lawsuit after lawsuit. Five figure fines and more.

Exposure to safety risks within the workplace is a critical issue and the possible consequences for business owners not complying with their WHS legislative obligations are endless. Rest assured, there's help to get these right and simple steps to avoid consequences all together.

Asbestos, in particular, is governed under the 2017 NSW WHS (Work Health Safety) Regulations which is applied to all workplaces in NSW.

Unpacking any legislation can be quite tricky, however, John Fallon of Warren Saunders Insurance Brokers insists understanding the WHS Regulations in regard to Asbestos Management is crucial for all business owners, especially since most business owners wouldn't even be aware of it.

Chapter 8 of the NSW WHS Regulations has been dedicated to asbestos. Business knowledge of this chapter of the register is critical in assuring compliance. (You can view the entire chapter here > https://www.legislation.nsw.gov.au/#/view/regulation/2017/404/chap8)

> "In any workplace where asbestos has been identified or assumed, an asbestos register must be prepared and kept on premise," warns Fallon.

Under Regulation 425 of the Asbestos Register, subclause 6 does however indicate that the clause does not apply to a workplace if the building was constructed after 31 December, 2003 and no asbestos has been identified at the workplace and/or no asbestos is likely to be present at the workplace from time to time.

> "It is the responsibility of a person with management or control of a workplace to keep an asbestos register, which is to be reviewed and revised," says Fallon.

> "Asbestos management plans are also to be reviewed every 5 years," John Fallon says referring to Regulation 430 of the NSW WHS Regulations.


EXCLUSIVE NATIONAL NSW COURTS

'Huge victory': three children win David and Goliath case over asbestos death

When business owners do not comply with these regulations, there are a series of possible consequences. The Blue Mountains Council was stung in December 2017 after being investigated over their Asbestos Management.

> "SafeWork NSW launched a full investigation into the Asbestos Management practise at the Blue Mountains City Council after being contacted about alleged mismanagement which were deemed 'disturbing' and 'alarming' by Minister for Better Regulation, Matt Kean," Fallon explains.

The investigation uncovered asbestos in a number of Council owned assets including a pre-school in Wentworth Falls, The Lawson Library ceiling, the ceilings and walls at Warrimoo Citizens' Hall and another four confirmed locations.

"The pre-school was immediately closed by SafeWork NSW and other sites were ordered to take immediate measures like implementing exclusion zones," says Mr Fallon.

> "Business owners and councils alike not complying with Asbestos Management legislation is significantly frowned upon. SafeWork NSW rigorously looks after enforcing the regulations and we have seen a number of consequences being dealt. Closure of workplaces, common law claims from worker exposure to asbestos containing materials, fines as a result from non-compliance with provisional improvement notices and receiving provisional improvement notices (PINs) from SafeWork NSW for non-compliance with mandatory Asbestos Management legislation are all possible consequences."

Businesses must understand the legal WHS obligations around asbestos management and get it right from the start to avoid the consequences.

> "The market need for understanding and action around asbestos management has been met by Saunders Safety and Training (SS&T)," confirms Fallon.

They've become a true national provider of WHS and Asbestos Management services helping businesses comply with often confusing WHS legislative requirements. SS&T have Licensed Asbestos Assessors (LAA's), Hazardous Materials Consultants and Occupational Hygienists across the country who work with businesses.

Asbestos management presents its own set of risks as well as legislative compliance needs.

> "Fortunately, SS&T have developed an enterprise Asbestos Inspection App that adds into their range of asbestos services including asbestos registers, asbestos management plans, clearance certificates and dashboard reporting," says John Fallon

"The clever app provides fast report turnaround times, instant generation of asbestos registers, management plans and clearance certificates as well as client access to a user-friendly dashboard reporting function and document storage cloud," clarifies Fallon. Asset management extends wider than many businesses may think, its critical to get every component right. Asbestos management is just one piece of the puzzle.

Insurance Insights in a nutshell - John Fallon, Director, Warren Sanders Insurance Brokers:

1. Don't assume you'll get away with not complying with WHS legislative obligations
2. Understand that any workplace where asbestos has been identified or assumed must have an asbestos register
3. Refer any queries to the 2017 NSW WHS (Work Health Safety) Regulations
4. Saunders Safety and Training (SS&T) has been set up to help with understanding and action around asbestos management

Unpacking the fundamental principles of lending

In today's current financial landscape, lending is proving a controversial subject and significant barrier for some investors.

At any level, the fundamental principles of lending apply when a loan is being assessed:

> Who are we lending to?
>
> How and when are they going to pay it back?

We turned to Richard Batten from Campbell Advisory to expose what due diligence lenders undergo on organisational investors before lending to them.

Batten explained that whilst the two above fundamentals are simple questions, the level of detail a lender gets into does indeed change when the size of the deal increases and/or the property market starts to contract.

"Off the back of the Royal Commission, the Banks have really upped the ante of reviewing deals and their risk appetite," Batten says.

Batten has explored the background of assessing a loan from a lenders perspective.

Firstly, 'Who are we lending to?'

"The borrower or its management team's reputation is everything and to get the best deal in regard to terms and price it all starts here," says Mr Batten.

"From a clean credit report to a track record in completing comparable projects on time in budget, to transparency and timeliness around providing information, all of this goes toward the lender risk assessment. The cleaner the information is provided the quicker the questions will stop as lenders get comfortable that the risk can be managed," "Further, lenders do often acknowledge existing relationships where they have experienced first-hand the performance of the borrower. However, this can be an issue when the relationship grows as lenders ultimately have exposure limits against borrowers, assets and sectors."

Secondly, 'How and when are they going to pay it back?'

Taking a secured position, lenders usually look for 2 ways out.

1. The cash flows generated by the property

"The longer the term the most risk to the lender, so the lender needs to understand how it will be paid back and test sensitivity around this," says Batten. "This comes down to assessing the cash flows underpinning the asset, be it from the sell down of a development to the lease terms, and tenant profile of an investment property," Hot tip: Present the information with documented evidence, such as detailed costs and comparable sales for developments and strong leases for investments – that's what will underpin the cash flows and give the lender confidence to provide a longer term to match the requirements of the borrower.

2. The value of the property

Debt is a substantially cheaper form of capital then equity, but it comes with strings attached…

> "There are usually controls around the terms of the money lent overlaid with the principle that if these terms are not met, the lender can take control and sell the property and recoup its money before equity," warns Batten.
>
> "The leverage against the property and the lender assessment of the property to retain value during differing economic situations all need to be covered off in an assessment. Again, the cash flows often underpin the property and that is the preferred assessment approach, but alternative uses and their potential should also be flagged to the lender to give them comfort around value."

Richard Batten also shared insight into what due diligence an organisational investor of the board should undertake on their lender before signing off on a big finance deals.

According to Mr Batten, "when choosing a lender, it is vital the investor does their homework, as it is a long-term relationship and when things do not go as planned the investor needs to be able to work with the lender to maintain value and get the best results."

There are a series of issues to consider:

- **What is the target market of the lender?**

  "The best results in terms of price and structure are obtained from a lender who actively wants the property class you have on their books," suggests Batten.

- **Does the lender specialise in this asset class and what is their track record?**

"If the lenders focus is on commercial investment property, they may not have the skills or appetite to assist with a residential development," warns Richard Batten.

- **What is the average and maximum deal size of the lender?**

"If a lenders maximum deal size is typically $5 million, they may indicate they would like to assist with a $50 million deal but will unlikely have the skill set to optimise the structure and manage the deal. Conversely, if a lender focuses on larger deals they will not apply the resources to a smaller deal and the best result is not achieved," says Batten.

- **Do you have access to decision makers or influencers within the lender?**

"Communication is critical so access to decision makers and influencers is critical in clearly understanding information requirements, the reasons for information requests and ultimately the decision on terms and price," advises Batten.

- **What is the lenders track record in dealing with borrowers who default?**

"Ask yourself, is this lender quick to act on default or will they work with the borrower to remediate the situation? Once a default has occurred it is often a situation that has not gone to plan and borrowers and lenders need to keep communicating so as they can protect their respective positions," warns Batten.

Finance Facts in a nutshell – Richard Batten, Campbell Advisory:

1. Investors must do their homework when choosing a lender to build a long-term relationship
2. Lenders abide by the fundamental principles of lending when assessing a loan. These are; Who are we lending to and how and when are they going to pay it back?
3. Give lenders clean information to speed up the process and get lenders comfortable that the risk can be managed
4. Debt is a substantially cheaper form of capital then equity

Suburbanite - Anna Porter

Anna Porter (Grad Dip UEM, CPV AAPI) is the principal of Suburbanite and a qualified property valuer. Dynamic, knowledgeable and ethical are three words that are often used to describe Anna.
She leads a team of highly skilled consultants to ensure her clients achieve their investment goals and avoid costly mistakes along the way.

Anna's is often sought after by media for her expert commentary and has featured in Australian Property Investor Magazine, ABC National Radio, 2UE Radio, Channel Nine's The Mornings Show, Studio 10, Sky News Real Estate, Fairfax Newspapers and many more media platforms.

Anna also has her own segment on Australia's new TV channel 'Your Money' on free-to-air channel 95.

She has shared the stage with Mark Bouris and Andrew Morello as the property expert on the 2016 and 2017 Prosperity Through Property Australian Tour. She also runs education programs for companies like Caltex, Optus, Flight Centre and Cricket NSW to name a few.

As an accomplished valuer for 10+ years, Anna worked on many institutional portfolios with thousands of assets across various property sectors. She also taught Property at Sydney Institute and was involved in helping them develop their new Degree Course in Property Valuation.

She still works with organisations and NFP's to develop their property strategies and ensure that their current assets are aligned with the outcomes of the business. But also enjoys working one on one with 'Mum and Dad' investors and first- time investors to help them start their investment journey the right way.

- John Fallon

Across my over 30 years in the insurance industry I have always been passionate about dealing with & solving the problems of real people and organisations. The drive for me is getting to know the individual needs of my clients and then working together to ensure they get the correct insurance protection and the service they deserve. As a broker, I get to do that every day.

At Warren Saunders Insurance Brokers, we deal with a large variety of SME clients with a specialist focus on the Aged Care, Retirement Village, Licensed Club, hospitality & construction industries.

Our purpose is to provide our clients with peace of mind by providing best in class insurance and service by utilising the skills of our Professional advisors.

- Richard Batten

Richard has over 20 years' experience in commercial and corporate banking. During this time Richard has delivered successful outcomes through the business cycle from loan origination and management to work-out and recovery.

It is from this end to end experience across the hospitality, wholesale, finance and property sectors that Richard brings a unique skill set in understanding the financial, commercial and legal drivers in developing financing structures and assessing banking proposals.

Prior to joining Campbell Advisory, Richard worked across the relationship, credit and work-out teams at Westpac, Bank of Scotland and Lloyds Banking Group.

The Contributors

- Tracey Lentell

People, values and service are the core drivers of Tracey's leadership approach. She is an organisational strategist and an outcome focussed, Senior Executive Manager with broad experience in the not for profit sector spanning financial services, hospitality, gaming, community and sport.

Over the last 15 years she has been CEO of two large Sydney Clubs being Moorebank Sports Club Group and Club Rivers and has been the agent for change that has taken them through significant growth and turnaround from décor and design, through service and culture and by looking at all financial numbers. In her role now, she has decided to go out and consult back to the Industry as she can see some gaps in the market for culture, change, service, quality leadership, interior design and customer experience that are not currently being met.

To learn more about Tracey please visit her [LinkedIn].

- John Waight

John Waight is an Assistant Real Estate Development Manager for McDonald's Australia, where he has the responsibility of driving new restaurant opportunities in South West Sydney and the Sydney CBD.

John joined McDonald's in 2018, with over 10 years' experience in residential and commercial real estate and property valuation. Since starting his career in real estate sales on Sydney's north shore in 2007, he has worked across national property markets and in various property disciplines including property investment, commercial property valuation and site acquisition for national fitness franchise, Plus Fitness. In his time with McDonald's, John has been pivotal in the development and execution of the restaurant growth plan for his core market. With a passion for place making and a strategic approach to acquisitions, John has been able to deliver results and support the next stage of McDonald's growth in Australia.

John has a Graduate Diploma of Property Development from the University of Technology, Sydney as well as an Advanced Diploma in Property Services (Valuation).

- David Knowles

David heads Koda Capital's Philanthropic & Social Capital team. His primary responsibility is providing strategic advice to charitable, non-profit, philanthropic and impact investors.

Prior to joining the Koda team David held senior leadership positions at Perpetual, where he was Head of Philanthropy, and JBWere, where he was a Managing Director and Head of Philanthropic Services. David has also worked for Coutts & Co. and Merrill Lynch in the UK, where he qualified as a professional trustee and executor.

David is a member of the Centre for Social Impact's Advisory Council, Raise Foundation's Patron's Advisory Council and a Director of three charities: the Sydney Community Foundation, the Foundation for National Parks & Wildlife and BoardConnect.

David also sits on the editorial advisory board of Generosity magazine. He has completed the AICD's Governance Foundations of Non-Profit Directors course and the Harvard Business School's Governing for Non-Profit Excellence executive education course. David recently co-founded Plus One, a pro bono initiative providing free professional development opportunities to non-profit leaders.

- Adam Horton

Adam is an Adviser and Partner at Koda Capital and has worked in financial markets and wealth management since 2005.

He is passionate about working with and understanding his clients and knows that they each have different aspirations, objectives and priorities. It is when strong connections are made that truly successful relationships are built and great outcomes are achieved.