Asset 360 Report

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

Renewing Dead Assets:

How to repurpose, revitalise and avoid the risk of having under-performing assets

September, 2019

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Executive Summary

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

Have you ever considered the value of the air space above the bowling green, or over the 9th hole? Perhaps it is time to reconsider how you are using these assets, as they could be the most valuable spaces you have in your portfolio.

In this edition, we explore unused air space rights, to empty car parks and how it is time to review how they generate revenue for your organisation as well as what to do with gaming machines and more.

Anna Porter from Suburbanite Asset Advisory is joined by Richard Batten and Adam Rourke for this update.

Have you ever considered the value of the air space above the bowling green, or over the 9th hole?

It is very common for Clubs, especially Golf Clubs to be looking for more innovative ways to utilise their land. The challenge is that much of the land is still required for operational uses.

Anna Porter, Suburbanite Principal and market commentator believes thinking outside of the box and exploring new ways to create revenue from assets in the portfolio is more important than ever.

> "Have you ever considered the value of the air space above the bowling green, or over the 9th hole? Perhaps it is time to reconsider how you are using these assets, as they could be the most valuable spaces you have in your portfolio," suggests Porter.

In this edition, she explores unused air space rights, to empty car parks and how it is time to review how they generate revenue for your organisation.

"Recently the air space above the UNESCO World Heritage-listed Hyde Park Barracks sold for $20 million, and not to put advertising or signage but to trade the rights to use the floor space ratio on another property," says Porter.

"It is rumoured that three different developers, including Lendlease, have purchased the 12,000 odd square meters of "air rights" for just over $1,500 per sqm. This is the first case in which an Australian UNESCO-listed building has sold its air rights, and only the second case for a government building in Sydney,"

Slightly more than 12,000 sqm of air space will be repurposed to another development somewhere in the CBD to add to that projects developable area, known as the FSR. Whilst the FSR trading scheme was only introduced in 2015, the philosophy underlying this scheme is not a new one, and has been done with bio-banking credits for decades, but it is not as common for FSR or 'air space' to trade at this level.

"Golf clubs and bowling clubs could be missing out on a hidden pot of Gold here. They can still keep their land operational, all the while generating much needed revenue for their air space," says Porter.

The other under-utilised asset that many clubs can look to generate more revenue from is carparks.

"They often have street frontage, or are the first area a guest or member sees when they arrive at the venue. But, they just aren't used well. Whilst all clubs have a requirement to provide a certain amount of parking, this means the car parking areas solutions need to be temporary or non-fixed," says Porter.

"Some of the best ideas we have implemented for organisations we work with include food vans, coffee vans, craft beer tasting on wheels and coffee shop shipping containers,"

"This can create an opportunity for your golfers to grab a coffee on their way onto the course, create a food and craft beer event in the car park that taps into a younger demographic or draw in new people to the club as they pass by if you have street exposure that isn't being utilised."

Food vans and craft beers on wheels can be executed by the club, or you can engage with providers and rent out the space. All the while getting more exposure for the club when you attract a larger, more diverse audience.

"The shipping container coffee shop can also be moved as needed, doesn't take up much space and can be purchased and brought to side for as little as $20,000 then fully fitted out from $50,000-$100,000," says Porter.

"Again, this can be leased out to a commercial tenant, or executed by the club."

360 Degrees on the assets in a nutshell – Anna Porter, Suburbanite Asset Advisory:

1. Explore new ways to create revenue from existing assets
2. Understand your 'air rights'
3. Place a coffee shop, food truck, etc. in your carpark
4. Engage with external providers on how they might be able to use your underutilised car parking space

Café's and food vendors

Have you fallen trap to under-utilised, under-rented and under-performing assets?

Self-managed and internally managed assets are notorious for being under-utilised, under-rented and under-performing for NFP's. Not for profit organisations typically self-manage their asset portfolios in an effort to save money on external providers, but according to Suburbanite principal and market commentator, Anna Porter, this can more often than not be costlier in the long run.

> "Whether it be residential assets that were bequeathed to them, properties purchased as an operational asset or a commercial portfolio that was once occupied and has outgrown over the years, they all need their own special attention and to be performing at their peak," says Porter.

"The other risks of self-managing assets are that many are usually managed in breach of legislative controls,"

"All too often we see the CFO or GM tasked with looking after residential assets and they spend their time chasing up maintenance requests, liaising with tradies, managing rental arrears and in many cases making decisions that are not compliant with the Rental Tenancy ACT, which exposes their organisation to fines."

These legislative pieces are incredibly complex and generally in favour of the tenants, so it is very easy to branch the legislative controls if you aren't an experienced property manager.

"We appreciate that many NFP's may have a sensitivity with the type of tenants they work with such as women escaping domestic violence, elderly at risk or homelessness, affordable housing participants and persons with disability," says Porter.

"This is certainly not the type of responsibility you simply hand over to a local suburban property manager. However, there are some better and more cost-effective solutions than tasking your CFO with the management of the portfolio, tenants and the problems that come with that."

BONUS: Case Study

In recent years, TAFE NSW have done some auditing on their own asset portfolio and have found many assets are underutilised and not fit for purpose. One example includes houses in Sydney's Inner West which were being utilised as file storage and were very run down. These properties held high capital values and with a small amount of work could be repurposed to generate rental revenue or realise their capital value through sale. So, the filing activities were moved to a more affordable location further out of the CBD and the houses were revitalised to achieve their highest and best use.

Some of the solutions Porter has seen include:

- Blended solution with an internal tenant/client liaison (especially if they are a group that are considered vulnerable) and an external property manager to look after the other issues to ensure compliance
- A specially trained internal property manager
- Bespoke management solution through an appropriate property firm
- Joint venture with a speciality group

360 Degrees on the assets in a nutshell – Anna Porter, Suburbanite Asset Advisory:

1. Give individual assets the special attention they deserve – each asset is different
2. Make sure you are complying with rental tenancy ACTS
3. Acknowledge who your tenants are, and if they are vulnerable nurture the relationship
4. Consider who the best property manager is for the asset

Knowing your trail: What many growing businesses are at risk of

In this edition, we are focusing on growing businesses, who are at risk of having a trail of dead assets as they grow out of each commercial space. The dead assets can come by way of owning property that is no longer fit for purpose, or by undertaking expensive fit outs on leased property that become the benefit of the landlord.

When investing in commercial assets for your growing business, it is important to set some governance around operational and purposeful assets and simply good investment decisions, Anna Porter, Suburbanite Principal and market commentator believes.

Sometimes these things are in conflict with one another, so investors should get advice before jumping into a large commercial acquisition strategy to ensure they are going in eyes wide open.

"The bigger challenge is with the commercial fit out. If you are doing a fit out that is expensive and can't be taken with you when you vacate, especially if it is a leased property then you really need to find some innovative solutions," says Porter.

"We have worked with clients that have tasked themselves with making more than 75% of the fit out repurpose able to another space should they need to move,"

"This has been done through clever furnishings and space dividers, as opposed to fixed items (see images). This is a great alternative to fixed boardrooms, meeting rooms and desk spaces. This can create a relocatable office environment."

Anna Porter is joined by Adam Rourke, Operations Director of Interlink Electrical and Communication Services who through vast industry experience has shared some common mistakes he has seen.

Rourke's top mistakes are:

1. Under budgeting
2. Not engaging the correct specialist Engineers and Trades
3. Significant changes or amendments to the design during the construction phase
4. Unrealistic time frames or programs

“Each mistake is costly, timely and inversely has a negative impact for the client once the project has been completed,” says Rourke.

“Especially when Design changes are rushed and made during the construction period. These can be reflected through look and feel of a cheaper finish or installation of inferior products.”

So how do broad portfolio investors and family offices reduce the risk of mistake?

Rourke believes this can all be reduced at the planning stage through having open conversations with contractors at the start of the job in the design phase, really getting to the bottom of what you want to achieve.

“Engage your builder and engineering consultants to assist in high level budgeting for real construction costs including site costs, preliminaries and trade budgets before the project is in the final tender stage,” he says.

“This allows the client to understand the costs before the project is at the tender stage or the opportunity to explore cost savings with the architect or engineer before the final documentation.”

Time and money is saved by doing this as well as any ambiguity of the design intent for the project when contractors are engaged.

By following Rourke's advice, there is *an* opportunity to assess and make accurate decisions on the following:

- Budget to complete the works
- Potential use of further capital to complete the project as per the overall design intent
- Timing
- Avoiding irrational decisions at the end of the tender period i.e. going with the cheapest quote

With any project, the right trades are crucial to getting it done. Rourke suggests researching or arranging tender interviews on all critical trades to discuss their intimate knowledge of the project scope, recent project experiences, introduction of construction management teams, construction time frames and programs, risk items and risk management.

Keeping key stakeholders engaged, without delaying deadlines is also a key issue we see which is not often managed correctly by organisations.

Rourke has seen building companies further connect with their clients through their own in-house design departments taking the clients shopping and having an opinion in the selection of the projects fixtures and fittings.

"Time lapse cameras are an effective tool to provide progress through social media and direct correspondence," says Rourke.

"I've also seen this done effectively by weekly site meetings to walk clients through the project."

BONUS: Beyond the build stage of the project

In today's building landscape, the life of the project beyond the build stage is as critically important as the build itself. Too many times, have we seen defect upon defect make news headlines.

Rourke insists on the maintenance and servicing of critical equipment post project completion.

He believes maintenance agreements should be set up with relevant trades as this is an effective way to maintain and ensure the longevity of the fit-out completed.

"This can be done monthly, quarterly or yearly with set dates and costs all confirmed and finalised each financial year," says Rourke.

"By considering the areas of electrical/lighting, painting touch ups, mechanical, audio visual, security, fire and IT, you are safeguarding the space from aging through general wear and tear."

360 Degrees on the assets in a nutshell – Adam Rourke, Interlink:

1. Set governance around design changes and avoid last minute changes to plans
2. Take caution when picking contractors and engage builders and engineer consultants to assist in budgeting
3. Arrange tender interviews with all critical trades before hiring
4. Create maintenance agreements with relevant trades to maintain and ensure the longevity of your fit out

Club Gaming Entitlements - getting the most out of your biggest asset

How well do you know your local VIP gaming area? Did you know gaming machines are actually critical to Club's revenue and are split into 2 forms of assets?

1. Gaming Machine – This is the physical machine played by the Club members and guests, with various gaming machines providing varying levels of performance and return to the Club based on features, location and user popularity.

2. Gaming Machine Entitlements (GME) - To operate Gaming Machines, Clubs require a GME for each physical Gaming Machine in use. The use of GME's is governed by the Industry Regulator - in NSW this is the Independent Liquor and Gaming Authority (ILGA)

The real value for Clubs is how effectively they utilise their Gaming Machines and GME's – from the number of gaming machines they have on the floor to the gaming equipment, room layout and player experience.

In this edition of the Asset360 Report, Richard Batten of Campbell Advisory, provides an overview of the trading market for GME's and how Clubs can best utilise this asset.

He shares how there is an active market for the buying, selling and now leasing of GME's which is good news for Clubs that either require more gaming machines or have GME's surplus to their needs.

Critical to the GME market is the transfer process, as this is regulated by ILGA, with 2 core fundamentals of the Transfer Process being: -

1. The location of Club's within the 3 regulatory zones being Band 3 (Red), Band 2 (Orange) and Band 1 (Green) – as determined by ILGA based on gaming concentration and disposable income, utilising data from the Australian Bureau of Statistics.
2. GME's are normally sold in Blocks of 3 – with the Seller transferring 3 GME's, with 2 going to the Buyer and 1 returning to the Government. However, in some cases, GME's can be sold in single lots when matched and added to make a complete block of 3.

"Trading of GME's between zones can be quite complex as ILGA is very prescriptive in the transfer of GME's, with the core concept being that GME's may only be traded within their current or a lower zone," says Batten.

"Red can be traded to Red, Orange or Green; Orange can only be traded to Orange and Green and Green to Green only,"

"In addition, there are additional restrictions placed on GME's in Red and Orange zones with Entitlements only able to be transferred within LGA's or to adjoining LGA's of the same or lesser Band rating."

This overlay by ILGA not only provides complexity but does impact demand across the market.

These regulatory zones are the key driver of price in addition to the ease of transfer and demand, with current market values of Green GME's trading at $50-$55,000 per block and Orange and Red at a premium to this.

When was the last time your club reviewed the performance of its gaming machines? Batten assures clubs should be actively reviewing the performance of their Gaming Machine's.

This review should look at the performance of each machine and the drivers of its performance, with a particular focus on;

- the number of active gaming machines v the number of GME's
- the underlying popularity of each gaming machine relative to the model and its position in the Gaming Room

Taking this further, Club's should also assess how Gaming sits within their overall strategy, member offering and physical space.

Then the key question for Club's to ask is…Should the Club expand, retain or reduce the number of gaming machines on the floor?

"Club's with more GME's than Gaming Machines should be reviewing if this is the best use of the GME as an asset on their balance sheet that can be converted to cash," says Batten.

"For those with surplus GME's– they can unlock value and be a ready source of liquidity for investment into other offerings for members or as a debt reduction strategy,"

"For those looking to grow their Gaming Offering, they can increase the gaming machines on the floor through the acquisition of GME's. This may need to be done by way of an increase in the threshold of the Club."

A Local Impact Assessment (LIA) application may need to be undertaken, depending on the number of additional GME's sought and the Band rating of the venue should a club opt to acquire more GME's.

For those Club's with surplus GME's but not wanting to sell, the option to lease has recently entered the market, although early days, there has been some activity in the Red and Orange zones.

As GME's are traded via an off-market process it is often a matter for the Club to search out either a buyer or seller with the aid of an intermediary such as Campbell Advisory assisting with the transfer documentation and matching of buyers and sellers.

Former CEO of Clubs NSW, David Costello, would be pleased to assist in any enquiry that you may have and can be contacted at:-
contact@campbelladvisory.com.au

Lazy Assets in a nutshell – Richard Batten, Campbell Advisory:

1. To operate Gaming Machines, Clubs require a GME for each physical Gaming Machine
2. There is an active market for the buying, selling and now leasing of GME’s
3. If your club has surplus GME’s, you can lease them to unlock surplus value
4. GME’s are traded by an off-market process

Financing your fit-out

When assessing your options to improve your customer/member offering via an upgrade or renovation of your premises, a budget on how much you want to spend is the first step.

According to Richard Batten, of Campbell Advisory, once you have developed and costed the fit-out the next key consideration is how to pay for it?

Key considerations when looking to fund the fit-out of your premises should be: -

1. What impact will this have on current and future cash flow?
2. How will this fit with current and future Bank Borrowings, such as overdraft and term loans?
3. Matching the funding cash flow with the anticipated uplift in trading following the works.

Fit out financing can be a great option as it: -

1. Is specifically against the fit-out costs.
2. Allows you to preserve cash on your balance sheet.
3. The Loan term can often match the lifecycle of the goods financed.
4. Does not utilize your normal Bank funding lines and therefore leaves room for them to be utilized for other funding options such as property purchases or cash flow.

"Fit out finance is provided by a number of lenders from the Big 4 banks to Non-banks with asset class specialization to small fintech providers – with each having their own underwriting criteria and risk appetite," says Mr Batten.

There are a range of characteristics for fit-out financing, according to Mr Batten.

"Purpose can include a range of business fit out needs, including restaurant, hospitality, shop, and gaming room fit outs as well as retrofitting existing premises and relocating to new ones," says Richard Batten.

"The finance is generally provided for serialised assets, but can also include soft costs within the one facility and loan amounts generally range from $5,000 to $250,000, depending upon the nature of the works and financial standing of the applicant," "In regard to the finance term, it is usually six to 36 months, depending on the assets being financed this can be increased to 60 months."

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

1. An accurate budget should be the first step before endeavouring any upgrade or renovation on fit out
2. Fit out finance allows you to preserve cash on your balance sheet
3. Whilst it is generally provided for serialised assets, it can also include soft costs within the one facility
4. The loan term can often match the lifecycle of the goods being financed

The Contributors

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.

The Contributors

interlink - Adam Rourke

Adam has over 15 years of experience to the commercial, electrical and communications industry. From planning and design through to implementation and maintenance, and expertise to complete the most sophisticated electrical and communication installations.

His primary role at Interlink is the Company Operations overseeing estimation, management and maintenance/D&C division.

Providing clients with practical and efficient service is the key to the success of the Interlink business.

The vision at Interlink is to be the Industry's most respected Electrical & Communications installation company.

CAMPBELL ADVISORY - 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.