



## **STRATEGIC PROPERTY OPTIONS ANALYSIS (version 14)**

### **SUMMARY REPORT**

This is a summary of the draft Strategic Property Options Analysis Report v14 (the Report) for circulation to all members in preparation for the presentation and discussion to take place at the Congregation discussion on Sunday 4 September. The Project Control Group is expected, on 26 August, to approve and recommend the draft Report to Mark the Evangelist for consideration. Once that occurs, members who wish to do so may separately access a copy of the full 36 page Report (as a PDF document), either with or without the 115 pages of appendices. These various versions are expected to be available on the MtE website from 29 August. Church Council will consider this Report at its meeting on 1 September prior to its presentation to the Congregation on the 4<sup>th</sup>.

Note that the headings used in this Summary Report correspond to those in the full Report.

Much of this version 14 of the Report is similar to that of the version we considered in March and April. This Report differs in two significant ways. First it covers the additional four sets of property options that have been raised by the Congregation since April. Second, on advice from Property Services, the financial analyses are based on existing BOMAR Property Sales Proceeds policy, with separate sensitivity analyses included in the appendices to show the impact of BOMAR acceptance of MtE's proposal that mission activities should also be allowed as a pre-sharing deduction.

As we have done before, the purpose of the Congregational discussion on 4 September is to provide an opportunity for members to listen to and seek clarification on Church Council's presentation on this latest update of the Report as recommendation by the Mark the Evangelist Futures (MTEF) Project Control Group. The intention of this Congregational discussion is to increase everyone's understanding of the issues raised. This opportunity will be for discussion and not decision-making.

A further Congregation Meeting has been scheduled for Sunday 23 October at which members will identify their preferred option. Church Council will formalise the preference of the congregation at its meeting on 3 November 2016.

#### **1. Executive Summary** (Full Report pp.2-5)

Instead of an Executive Summary, an outline of 'key issues' is provided here for this Summary Report.

- a. In addition to the original three sets of options, at the congregation's request four additional sets of options have been examined and analysed in this report.

- b. The Cash Flow analysis for each option shows that Mark the Evangelist needs urgently to establish a balanced budget because it is currently living beyond its means and will use up its cash reserves over time. This is regardless of which option is preferred by the Congregation.
- c. Given the financial performance results which emerge, the most likely options for consideration are as follows.
  - i. Option 0 (Status Quo – do nothing);
  - ii. Option 1 (sell the whole site);
  - iii. Option 5.a (stay with the Hall, Supper Room and Cottage and sell the rest);
  - iv. Option 6.b (stay with the Church, the Hall, the Supper Room and the Cottage and develop then sell the rest); and
  - v. Option 7.a (stay with the Church and the Cottage and sell the rest).

## **2. Options Explored** (Full Report p.6)

The options considered in this report are:

Option 0 – Status Quo, no redevelopment of the site, the congregation remains as-is

Option 1 – Sell Whole Site

- Option 1.1 Sell site and purchase new site
- Option 1.2 Sell site and rent alternative space

Option 2 – Develop Whole Site and Sell

- Option 2.1 Develop whole site, sell, and purchase new site
- Option 2.2 Develop whole site, sell, and rent alternative space

Option 3 – Stay and part sale/develop

- Option 3.1 Stay, sell 2/3 site from manse to Queensberry St, and renovate church
- Option 3.2 Stay, develop and sell 2/3 site from manse to Queensberry St, and renovate church
- Option 3.3 Stay, develop, renovate church, and retain whole site

Option 4 – Develop a worship centre on a central strip that includes the Manse, and sell the sections north and south of that strip;

Option 5.a – Stay in Hall with walkways to cottage and refurbished Supper Room, sell 2/3 of site and UMC

Option 6.a – Stay, sell 2/3 of site, undertake Minimal UMC Renovation works and walkways

Option 6.b – Stay, develop 2/3 of site and sell, undertake Minimal UMC Renovation works and walkways

Option 7.a – Stay, sell 2/3 of site and the Hall and the Supper Room, undertake Minimal UMC Renovation works and link to cottage

The seven groups of options which have been examined are set against Option 0 - the Status Quo for Mark the Evangelist - that is the 'do nothing' position, the base case for comparison with the options explored to achieve financial sustainability.

## **3. Heritage and Planning Advice** (Full Report pp.7-11)

Pre-application Heritage and Planning advice to inform the Property Options explored has been obtained from consultants who are experts in their respective fields. The preliminary advice received

has been integrated into the proposed Property Options and has informed the assumptions used in this Strategic Property Options report.

Heritage and planning advice in this Report has been expanded to cover the additional property options. The expanded sections provide more useful advice but do not significantly change the approach presented in March.

#### **4. Key Assumptions - Building Concepts** (Full Report pp.12-15)

The building concepts have remained as they were in March for the second and third set of options. In relation to the additional property options, provision has been made as appropriate for passageways between buildings at the southern end of the site, and for toilets and a kitchen to be provided next to the Supper Room.

For Options 6.a., 6.b., and 7.a. the restoration of the church has been reduced in cost to focus only on infrastructure which is critical for it to become usable.

#### **5. Risk and Opportunity Analysis** (Full Report pp.16-17)

The Risk and Opportunity Analysis is unchanged from March. As was stated at that time, the common risk applicable across all Property Options is that of not acting during this period of market buoyancy as advised by real estate agents consulted. Swift action is required to take advantage of the market opportunity to achieve maximum value from the Options proposed. Development of the site carries a higher than usual challenge given the heritage value, size, and type of development proposed. Lengthy consultation periods with Heritage Victoria may be required and time will increase costs and reduce project viability. However the opportunity is to realise increased value through residential development and either sale or rental. Restoration of the church involves significant heritage risks and risks of unforeseen renovation work that may be required. Even a restored heritage church carries significant risk for its future maintenance.

#### **6. MtE Mission Objectives** (Full Report pp.18-20)

The Mission Objectives confirmed in August 2015 relate to serving the community evangelistically through worship, spiritual expression and service, and using resources to make positive contributions to the wider UCA Church and community. While most options could enable the congregation to meet all of these objectives, some such as the Hall Option 5.a. would only meet the mission objectives if MtE revised downwards its space needs for the future.

Alongside the Mission Objectives, it is critical to note the effect of the assumption that BOMAR Property Sales Proceeds policy is not varied to provide for UnitingCare Hotham Mission activities being allowed before the proceeds are shared with the wider Church. Under none of the options would cash reserves increase, and by 2021, none would have achieved a positive operational result from the returns.

#### **7. Status Quo Position of Mark the Evangelist** (Full Report p.21)

The Status Quo position is unchanged from March. This section outlines the current financial position of Mark the Evangelist (starting from the 2016 budget) and our forecast cash flow position over a five year period should we remain as we are and take no action in relation to our properties.

This section explains that if we do nothing about our current situation, MtE is forecast to lose on average around \$78,000 per annum over the next 5 years. On this basis, our cash reserves will support Mark the Evangelist until approximately 2031 should the trend continue. However in February 2016, alongside the feasibility study process, Church Council resolved that MtE in future should plan for a balanced budget in order that the congregation can achieve financial sustainability.

## 8. Financial Feasibility of Each Option (Full Report pp.22-24)

Detailed financial feasibilities have been compiled and analysed by SEMZ. The feasibilities rely on the collective input of the consultant team including an architect for drawings, planning and heritage specialists, and a quantity surveyor for cost estimates of the works. The financial analysis shows the outputs of each Property Option in terms of the net proceeds realised for Mark the Evangelist upon the completion of a given Property Option.

| COMMERCIAL METRICS                                      | Option 1 | Option 2 | Option 3.1 | Option 3.2 | Option 3.3 |
|---|----------|----------|------------|------------|------------|
| Total Revenue   | \$12.2m  | \$58.5m  | \$9.2m     | \$44.0m    | \$1.5m     |
| Total Costs (incl. finance)                             | \$1.6m   | \$52.0m  | \$1.3m     | \$37.3m    | \$1.2m     |
| Land Value  | \$0      | \$12.2m  | \$0        | \$9.2m     | \$0        |
| Net Profit  | \$10.7m  | \$6.5m   | \$8.0m     | \$6.6m     | \$0.4m     |
| Total Equity Required                                   | -        | \$12.2m  | -          | \$10.0m    | \$9.2m     |
| Additional Equity Required                              | \$0      | \$0      | \$0        | \$0.8m     | \$0        |
| Project ROC   | N/A      | 12.07%   | N/A        | 16.99%     | N/A        |
| Equity IRR  | N/A      | 8.74%    | N/A        | 14.69%     | N/A        |
| Project IRR   | N/A      | 7.15%    | N/A        | 9.79%      | N/A        |
| Project NPV (Discount Rate 15%)                         | N/A      | (\$5.0m) | N/A        | (\$2.5)    | N/A        |
| PROCEED METRICS   | Option 1 | Option 2 | Option 3.1 | Option 3.2 | Option 3.3 |
| Church Restoration Works                                | -        |          | \$5.4m     | \$5.4m     | N/A        |
| Relocation Costs  | \$3.6m   |          | -          | -          |            |
| 3I Costs  | -        |          | \$30k      | \$200k     |            |
| BOMAR Contribution                                      | \$3.5m   | N/A      | \$1.0m     | \$5.3m     | N/A        |
| MtE Net Proceeds (Profit + Land – Church Works & BOMAR) | \$3.6m   | N/A      | \$1.5m     | \$5.0m     | N/A        |

In this initial set of property option feasibilities, the grey shading indicates that Options 2 and 3.3 are not financially viable.

Option 2 does not meet the required commercial and UCA-set criteria - Project Return on Capital (ROC), Equity Internal Rate of Return (IRR), Project IRR, Project Net Present Value (NPV) - to be a viable project. Option 2 would not be considered viable for approval by the UCA or for debt funding by banks.

Option 3.3 produces a net annual profit from the rental of \$0.4m, however it does not provide funds to pay for the cost of the church restoration or additional proceeds to generate revenue in an investment account for ongoing financial sustainability.

Despite it returning a small profit after the Church restoration has taken place, Option 3.1 also does not meet financial sustainability criteria. It does not provide sufficient proceeds for an ongoing operational surplus once the income producing assets (terrace cottages and commercial building) have been sold, and as a result the forecast operational cash flow shows a large annual deficit.

Of the first set of options, Option 3.2 indicated the most favourable outcome for MtE in terms of the net proceeds realised. However on 1 May the Congregation determined that it would not proceed with this ‘development and sell’ approach to restoration of the Church.

The financial feasibilities of the four additional options examined subsequently are as follows.

| COMMERCIAL METRICS  | Option 5.a | Option 6.a | Option 6.b | Option 7.a |
|---|------------|------------|------------|------------|
| Total Revenue   | \$9.3m     | \$9.2m     | \$43.9m    | \$10.3m    |
| Total Costs (incl. finance)                                   | \$1.1m     | \$1.0m     | \$36.9m    | \$1.1m     |
| Land Value  | \$9.3m     | \$9.2m     | \$9.2m     | -          |
| Net Profit  | \$8.2m     | \$8.2m     | \$7.0m     | \$9.1m     |
| Total Equity Required   | \$0.9m     | \$5.8m     | \$8.0m     | \$5.6m     |
| Additional Equity Required                                    | \$0        | \$0        | \$0        | \$0        |
| Project ROC   | -          | -          | 18.32%     | -          |
| Equity IRR  | -          | -          | 18.11%     | -          |
| Project IRR   | -          | -          | 10.89%     | -          |
| Project NPV<br>(Discount Rate 15%)                            | -          | -          | -          | -          |
| PROCEED METRICS   | Option 5.a | Option 6.a | Option 6.b | Option 7.a |
| Linkage/Church Works Costs                                    | \$0.9m     | \$4.8m     | \$4.8m     | \$4.4m     |
| Relocation Costs  | -          | -          | -          | -          |
| 3I Costs  | \$30k      | \$30k      | \$200k     | \$30k      |
| BOMAR Contribution  | \$3.6m     | \$1.5m     | \$5.8m     | \$2.2m     |
| MtE Net Proceeds (Profit +<br>Land – Church Works &<br>BOMAR) | \$3.6m     | \$1.9m     | \$5.4m     | \$2.5m     |

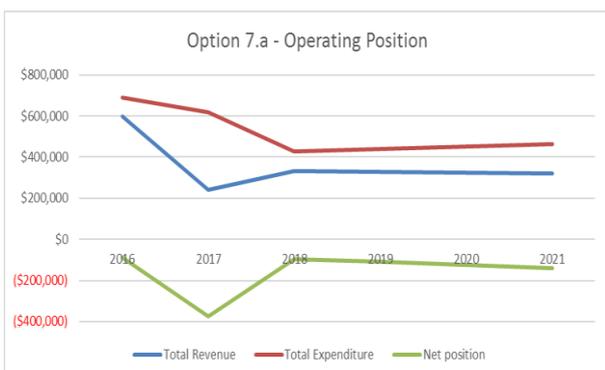
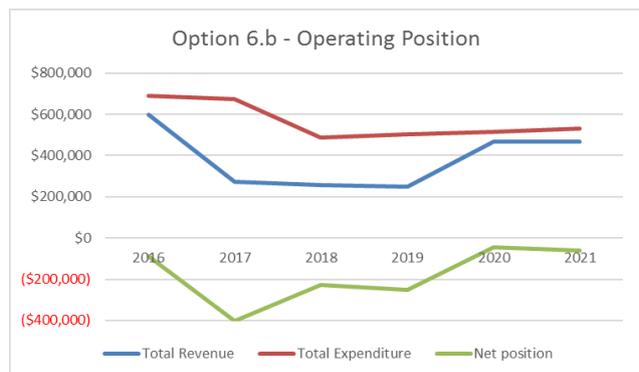
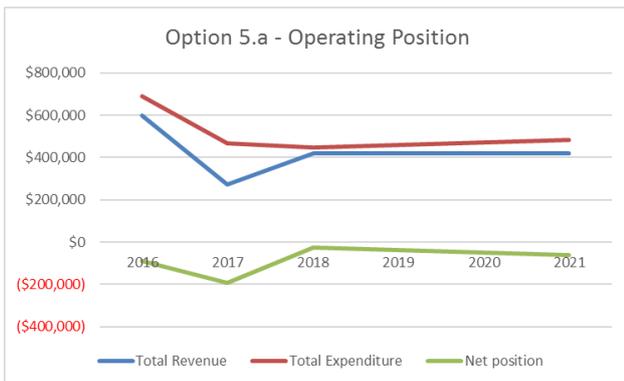
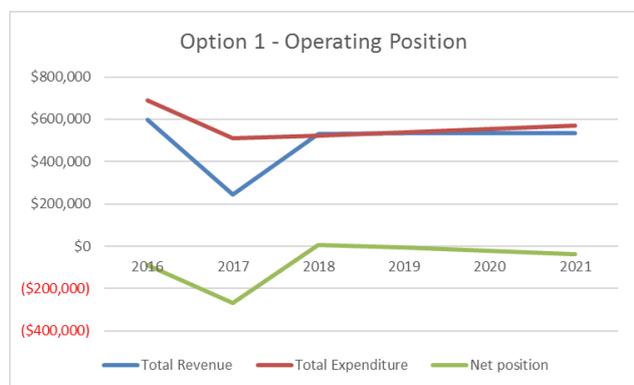
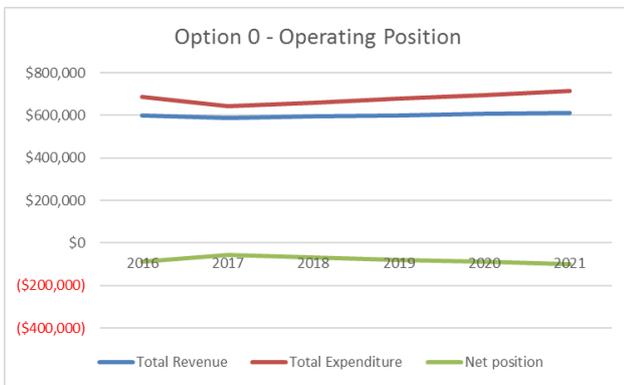
Option 5.a produces a solid financial outcome with MtE disposing of two thirds of the site, along with the Church. By including Union Memorial Church within the sale, it eradicates the additional costs associated with the restoration, thus increasing the financial return after BOMAR sharing.

Options 6.a. and Options 7.a. are particularly problematic due to being unviable financially and not producing sufficient net proceeds after mission costs to support MtE’s operational expenditure.

Option 6.b produces comparable returns to Option 3.2 generating \$5.4m in net proceeds from developing and selling two thirds of the site. However, this option (as with Option 3.2), carries a much higher risk profile (in terms of heritage, planning, construction and sales risk).

## 9. Operational Cash Flow Analysis (Full Report pp.25-28)

The Operational Cash Flow Analysis overlays the returns to MtE from the Property Options onto the day-to-day operations of Mark the Evangelist. For each option, total income, total expenses and the net operating position are calculated. The purpose of this exercise is to show the impact of the proceeds of each Property Option on the operational performance of Mark the Evangelist. The financial objective is that the Property Option should generate sufficient proceeds to support Mark the Evangelist including their Hotham Mission expenses.



The Status Quo (do nothing) option involves a decreasing cash balance (due to increasing deficits) and so is unsustainable. The net position for Options 5.a., 6.b. and 7.a. is negative and at 2021 it continues to decrease for all. The net position of Option 1 is positive in 2018 but it also decreases from there and continues negative to 2021.

## 10. Site Development Program (Full Report pp.29-30)

Each Property Option has an indicative time line that shows a delivery date for the proceeds of that option to be realised. Where the Property Option is to sell, the proceeds are realised significantly earlier than under any Property Option that involves building development. Selling the site (including disposal of a portion) and relocating indicatively would involve a year to 18 month process. Alternatively a residential development could take up to four years until proceeds are realised (given the approvals and permits which would be required). Only then could the church renovation be started, and this would take a further 12 months.

## 11. Overall Feasibility Assessment (Full Report pp.31, 32)

Each Property Option has a number of financial criteria that must be met in order that it may be deemed viable. It must be commercially viable and meet UCA development criteria for internal Synod approvals. It must also achieve specified development return rates so that it is an attractive proposition for a bank to fund the large costs involved. The Strategic Property Options Analysis Report rejects Property Options 2 (develop site and sell), 3.1 (sell 2/3 of the site and restore church), and 3.3 (develop site and restore church) on the basis that they are not viable and therefore would not receive Synod approval, or because it is unlikely a bank would provide the necessary debt funding.

In relation to Option 3.2, at the Special Congregational Meeting on 1 May 2016, the Congregation resolved by consensus

“not to proceed under Option 3.2 to sell the northern two thirds of the property after development and renovate Union Memorial Church for the purpose of returning to it for worship.”

The remaining options for consideration are presented in the table below.

| Options for considn    | Comml | Finl | Missn | BOMAR Contribn | Net Proceeds | Cash Reserves 2021 | Operating Result 2021 |
|------------------------|-------|------|-------|----------------|--------------|--------------------|-----------------------|
| Option 0 – Status Quo* |       |      |       | -              | -            | \$2.1m             | (\$63k)               |
| Option 1*              |       |      |       | \$3.5m         | \$3.6m       | \$5.7m             | (\$37k)               |
| Option 5.a             |       |      |       | \$3.6m         | \$3.6m       | \$5.7m             | (\$63k)               |
| Option 6.b             |       |      |       | \$5.8m         | \$5.4m       | \$6.9m             | (\$61k)               |
| Option 7.a             |       |      |       | \$2.2m         | \$2.5m       | \$4.1m             | (\$140k)              |

## **12. Conclusion** (Full Report p. 33)

All options show a negative operating result in 2021. This indicates that regardless of which option is preferred by Mark the Evangelist, action will have to be taken to eliminate the budget deficit from 2017. Under any option, without further budget action MtE will continue to reduce their cash reserve by an average of \$78k per year.

Option 1 provides the lowest financial risk of the options explored, generating the lowest operating deficit of the options considered. It meets the commercial needs of MtE but unless the budget deficit is eliminated its financial performance will continue to deteriorate. A further concern is relocating to a suitable facility. Relocation of MtE would require careful consideration of space needs and appropriateness. This option does take into consideration a one-off removal cost and \$150k p.a. for relocation costs.

Option 5.a gives MtE the best opportunity to remain onsite with the least risk. Its cash reserve in 2021 is comparable to that for Option 1 but again without budget action it also produces an operational deficit in 2021. If this option is preferred, MtE will need to revise their space requirements and consider the impact this will have on the scope of their future mission work.

Option 6.b. meets the commercial needs of MtE. MtE would also retain one third of the site (the cottage, UMC and the hall), which enables them to meet their space and missional needs. This option generates the highest net proceeds of those considered. However it also produces an operational deficit and comes with the additional substantial heritage, building and sale risks associated with the development and sale of the northern two thirds of the site and the restoration of the heritage Union Memorial Church.

Option 7a carries the highest risk and largest operational deficit of the sale options. It produces the lowest property option net proceeds due to UMC being retained. However it meets MtE initial space requirements better than does the Hall Option 5.a.

Options 0, 2, 3.1, 3.2, 4 and 6a have been discounted for further consideration, due to UCA metrics not being met, being options that do not pass preliminary heritage or planning assessments or would not be suitable for development funding, or because a congregation decision during this process has ruled it out.

It should be noted that, as indicated in the box on page 31, the impact of the MtE proposal for a variation of BOMAR Policy to allow for a deduction of the annualised cost of the UnitingCare Hotham Mission program of activities is that the financial performance of each property option improves. The reduced BOMAR sharing contribution enables a greater net proceeds amount for MtE.

## **13. Possible Relocation Option Alternatives** (Full Report p. 34)

MtE may be able to purchase or lease a building on the open market, including funding of the fitout costs, for the sole use of MtE for worship and mission.

Possible additional options for alternative sites are:

- a. The lease of non-commercial premises for the sole use of MtE for worship and mission;  
or
- b. A UCA or ecumenical merger.

#### **14. Next Steps** (Full Report p. 35)

- a. Strategic Property Options Analysis Report v14 (SPOAR) to MtE Church Council – 1 September 2016
- b. SPOAR v14 to MtE Congregational Discussion for consideration – 4 September 2016
- c. BOMAR consideration of MtE PSP policy variations – 20 September 2016
- d. Strategic Property Options Analysis Report v15 to MtE Church Council – 6 October 2016
- e. SPOAR v15 to MtE Congregational Meeting to identify the preferred option – 23 October 2016
- f. MtE Church Council formalises Congregation preference – 3 November 2016
- g. Draft Business Case for consideration by MtE Church Council – 1 December 2016
- h. Business Case Report to PCG – December 2016
- i. Business Case Report to MtE Church Council – February 2017
- j. Business Case Report to MtE Congregation for comment and support – February 2017
- k. MtE Church Council approves Congregation indicative decision – March 2017

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