



CHARTERED SURVEYORS &  
MANAGEMENT CONSULTANTS

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## Property Strategies for Charities

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### The Property Facts of Life

- Irish property values have more than halved over the past 2 years.
- Land values have fallen by more than 75%.
- It is almost impossible to sell property, even at these reduced prices.
- There is little prospect that values will rise significantly over the next 5 years.
- We can only hope that the sales process starts again when NAMA gets into operation.
- Many charities were relying on the proceeds of property sales at pre-crisis prices to fund new accommodation for confreres and/or clients.

### The Reality of many Charities Portfolios

- Services are not being provided at optimum level because of property-related financial constraints.
- The configuration of existing Buildings such as schools/residences is inappropriate, both for now and for the future.
- More buildings/rooms are held than needed for existing and projected confreres.
- The standards of existing accommodation are not up to desired levels.
- Operating from old buildings results in high running costs and operational inefficiencies.
- The repair of old, often Listed, buildings involves expenditure and questionable value-for-money issues.
- There is a need to provide suitable accommodation for ageing confreres.
- Personnel are unwilling to accept the need for change.
- The economics of in-house versus bought-in nursing care need to be borne in mind.
- Services are currently provided from buildings with health and safety issues.
- Scarce resources are being devoted to legacy property that might be used better elsewhere.
- There are no plans, or vague long-term plans at best, for building stock that will become surplus over time.
- The consequences of the Ryan Report apply for some.

Each of these issues could occupy the leadership team in long meetings, and probably produce more heat than resolution. While I don't have all the answers, I do know that trying to reach consensus by picking at individual problems only makes those problems multiply.

Throwing money at problems, or adopting a piecemeal management approach, might have been possible when resources were flush as a result of the property bonanza, but that situation no longer applies. Brainpower can often produce better long-term solutions, and looking at property strategically will produce a



much better result than throwing money and frustration at it (even for charities, renowned as they are for squeezing a euro's worth out of 50 cents).

From a property perspective it's essential to look at all the issues and to ask some key questions:

- Where does the property portfolio stand today?
- Is full information available about quantity, condition, value and costing?
- What is the aim for the property portfolio in five, or even ten, years — what properties, where should they be situated, what is the reasoning behind these choices?
- What is the route from 'now' to 'then'?

Before addressing these questions, we first need to agree on some common issues.

1. In most service organisations property normally absorbs the highest level of capital resources and the second highest level of revenue resources, and can be the third most intensive use of senior management time. The challenge in managing all property portfolios is to streamline property procedures so that resource use is minimised and service delivery is maximised.

Agreed?

2. A dynamic and fully up to date database, available to all decision makers, is key to good management of a property portfolio.

Agreed?

3. Objective, centralised and skilled property decision-making leads to the most efficient use of resources.

Agreed?

4. Each property should have a clear 'business plan' showing how it is serving the need of the charity and providing best value for money both in terms of revenue and use of capital.

Agreed?

5. New capital investment should only be made in property after a full cost benefit analysis, including the option of closing or reducing the service.

Agreed?

6. The task of managing a new property project — to bring it in on budget, on quality and on time and to manage the multiple external and internal issues — is a specialist skill.

Agreed?

If I went into most large commercial organisations in Ireland today and asked the CEO (1) if he agreed with these principles and (2) if he acted by them, the answer would generally be in the affirmative. Unfortunately, not all charities with significant property holdings or budgets could honestly answer similarly.

The alternative to taking a strategic approach to property is to attend to matters in a reactive way in the same way as we manage our own homes. We call in the local handyman when the roof leaks. We buy a new boiler



when the heating breaks down. We tack on sunrooms and extensions when we need more space or when we feel financially flush — and then complain about the cost over-run and the disruption.

But it gets more difficult as the portfolio grows beyond one house in which we live. How many of us have carried out a health and safety check in our homes — for inflammable foam, for clear escape routes, for the provision of powered smoke alarms? Many of us live in houses with three or four bedrooms when we need only two. We do this because we are human, we don't like change and doing the minimum is the line of least resistance. We call it crisis management and it works when we are on the spot and the budget is low.

On the other hand, if we look at the building management of organizations such as banks, with their large number of premises, we see a very different story, typified by constant review of premise-related issues. Say for example, the Bank of Ireland branch in Carrick-on-Shannon. Is it too big, or too small? Is it economic? Is it located in the right place? Does it comply with all statutory requirements? Indeed by way of example for those of you who know Carrick-on-Shannon — Bank of Ireland recently moved from a Georgian building at one end of the town to a modern one at the other end because trade had changed and because the old building was not fit for its purpose. You will also be aware that many towns have lost their bank because business was uneconomic.

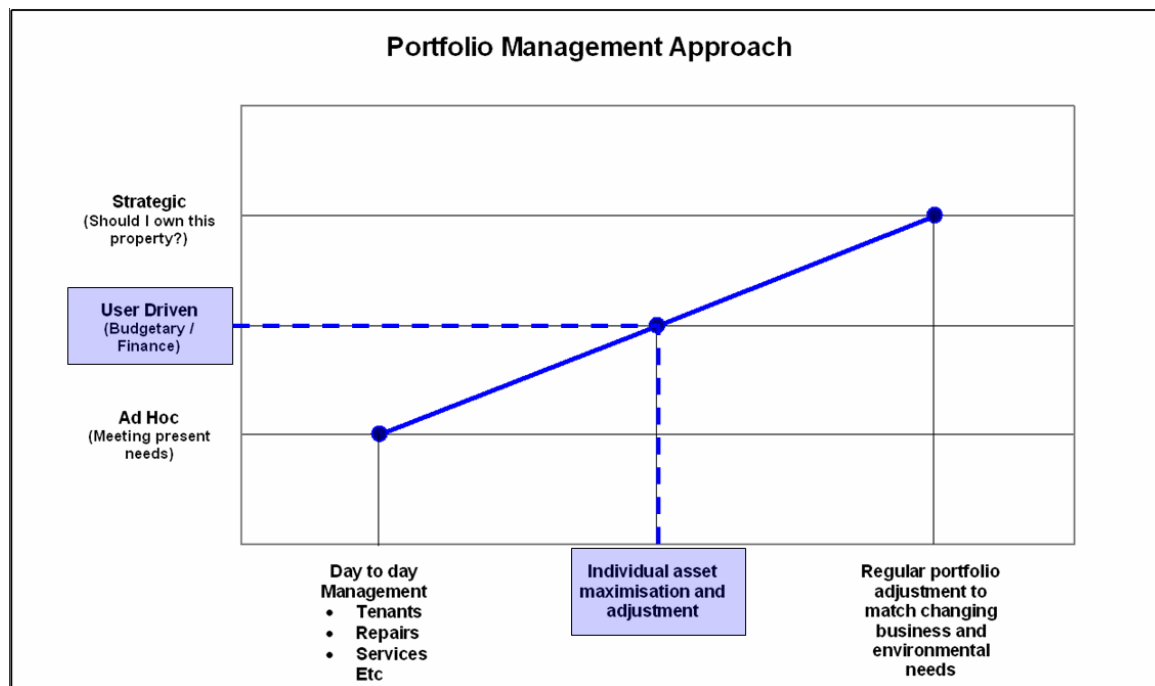
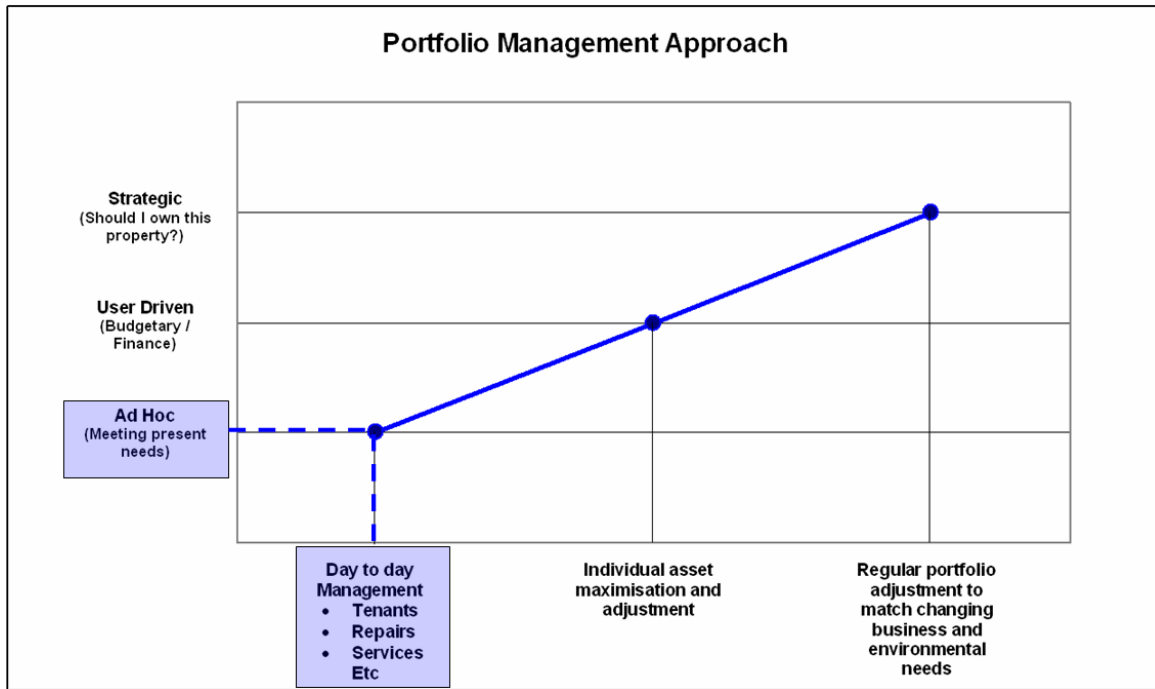
So how does a charity move from being reactionary or 'domestic' in its property activities to being proactive? You will all say that you have a good property management operation. You repair your roofs and look after the boiler. This is an essential part of occupying buildings. However it is not what I am here to talk about today.

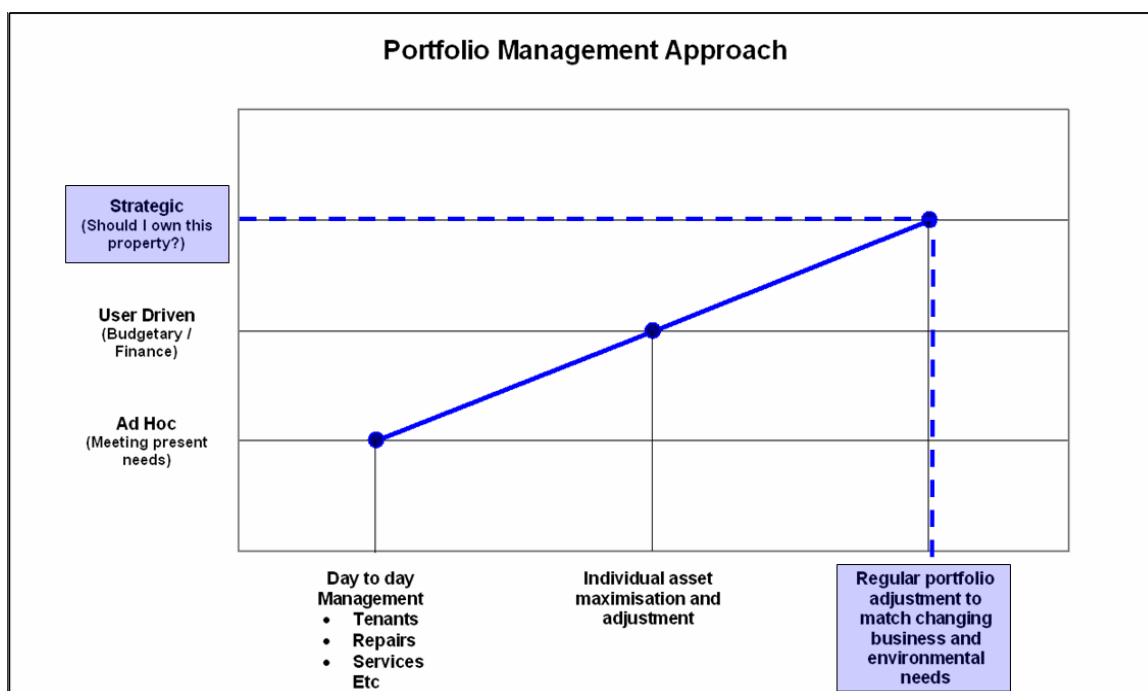




# There are three layers of Property Management

## Portfolio Management Approach





## 1) Day-to-day 'Property Management'

- Service procurement and cost minimisation
- User management

Implementation of scheme positioning via sale

## 2) Asset-specific Maximisation

Individual buildings are analysed within the context of the Goal and made suitable for the Mission or business needs.

*This will require:*

- *Implementation of a building's positioning strategy within the Goal (possibly involving exiting and selling all or part)*
- *Extension, redevelopment and physical adjustment*
- *Compliance with statutory or Mission/business standards.*

## 3) Strategic Real Estate Management

The portfolio is strategically positioned to meet the Mission or business needs.

*Requires an understanding of the physical and economic environment within which each building meets user needs. Once understood, a 'portfolio position' can be established and, if necessary, a strategy to alter that portfolio position (the Goal). This defined goal will direct the portfolio in terms of acquisition, adjustment, and management.*



You will shortly hear from Liam O'Dwyer of CIDP about an old charity, set in its ways, which suddenly asked itself a few important questions. Liam will tell you how what began with day-to-day property management issues led to a shift of focus to issues much bigger than mere property management.

Liam's story is typical of situations we regularly come across in WKN. We are approached by an organisation which says it has a property problem. Investigation of the presenting property issue establishes that it is only a symptom of something larger. The presenting issue may be that the property is too large for current needs and the accommodation is not fit for purpose. We are asked to come up with a property solution. The easiest thing for us would be the quick fix, which might be to build a new community residence on 25% of the land and to sell off the balance. But that would not be a strategic solution, and we always urge our clients to take a strategic or top-down approach.

The first question we ask is what their accommodation needs will be in 15 years or more. When that question results in a 'don't know' response, this in turn leads to further questions, such as: What will our Mission be in 15 years? What will our resources be in 15 years? Our response is that there is no point eating into scarce resources to construct an expensive new building that will last for 50 or 100 years if you don't know whether it will or will not be needed. Since the building often has a low alternative-use value — well below its construction costs — then, instead of spending 50 cents for a return of a euro the reverse would apply, with a value half the construction cost.

Let me give you a case study. It refers to Bloomfield Hospital which was located in Donnybrook and was a specialised nursing home built and run by the Quakers since 1801. The building had been extended several times in the intervening years and when they approached me in 2003 there were major problems relating to efficiency and health and safety. The initial question to me was 'how do we sell off some of our land to pay for the cost of complying with the urgent health and safety issues'. The question of efficiency was pushed into the background.

It quickly became clear to me that the issue was not health and safety at all, but the long-term survival of the Quaker Hospital. There was no point applying a sticking plaster to an issue that would recur again in a decade or so. The building was past its sell-by date, and the cost of providing a desired level of patient service was far higher than it would be in an efficient modern building. My initial advice was for them to decide if they wanted to remain in business for the next 50 years plus, or if they wanted to close down. I also advised that the value of the land in Donnybrook was sufficient to pay for a new facility in the suburbs and to leave some surplus for investment.

This proposition was examined in some detail at a strategic level. A serious argument was put forward for terminating the Hospital altogether and using the cash from a Donnybrook sale for other Quaker purposes. Obviously the decision was in favour of staying in business. Through a long complicated process which I managed, we agreed with a developer, Gerry Barrett, to swap the site at Bloomfield Avenue for a new 10-acre site at Rathfarnham with a brand new 56-bed nursing home thereon plus an office building and some



cash. Since then the Quakers have nearly doubled the size of the facility because we built into the strategic plan the extra land for future contingencies.

The easy 'property management' answer to what happened at Bloomfield would have been to pay for the health and safety works and to postpone, or avoid, the strategic issue of the long-term viability of the Hospital. Fortunately I was able to persuade the senior team at Bloomfield not to go for this easy option, but to take a long view and to think strategically.

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It's time now to return to the first 3 questions that I asked earlier in this paper:

- Where do I want to be in 5 years and even 10 years time in terms of my property portfolio?
- Where am I today in terms of my property portfolio?
- How do I get from 'now' to 'then'?

And then to add the follow-on questions:

- What will be our mission in 15 years?
- What will be our resources in 15 years?

The problem is that the first three questions cannot be answered without first answering the last two. It comes down to the organisation standing back, taking time out of the day-to-day affairs and planning its long-term future — what in business is known as preparing a long-term Strategy or Business Plan.

## The Business Plan

The first part of a Business Plan is a Vision for the future that all stakeholders can buy into. The second is the identification of the resources necessary to make it happen. The third is actual implementation, or making it happen.

From a property perspective we can contribute to a Business Plan by identifying the current property resources and developing alternative options for making the vision a reality. In the simple case of Bloomfield we articulated the problem, we identified the resources and we suggested options for either selling up or going to the suburbs.

But this was a simple case. Much more complex are cases where the property issues are only one part of the Business Plan and issues of people and mission are the real drivers. Liam O'Dwyer will give you some insight into this process.

I sometimes think that part of the property problem is that people who have been living or working in inherited or given property are inclined to treat it differently than other resources at their disposal. It becomes the sacred cow. In Focus Ireland, where I am a Director and Chairman of their Property Committee, we have a clear overall vision, with a Business Plan which sets out how to get there. Property is only one integrated tool for getting us there, and there are no sacred property cows! I keep saying that property is only a resource, and not a vocation. Property should be treated just like any other business resource, be it computer or photocopier or bus. It keeps the rain off and provides compatible accommodation from which to provide a service. It is *not* special!



I can argue that many charities should be renting their accommodation rather than owning it. Renting focuses the mind each time annual budgets are prepared, whereas ownership sometimes leads users to believe that the accommodation is free. As we all know there is nothing free in this world.

Tackling the property issues in an organisation without getting overall buy-in from the users is fraught with problems. There is always a good reason for not cooperating or for opposing any given solution. That is why meaningful change must begin with a Vision that everyone can buy into, which help them understand the reason for change. In her recent oration in Béal na mBláth commemorating the death of Michael Collins, Mary Robinson identified the issue precisely when she said: *'In the absence of a vision of our future which enjoys broad support, every interest group will put its own interest first and fight to protect what it has'*.

Mrs Robinson was talking about the political situation in Ireland, but she could just as well have been talking about trying to implement change in a charity or even a religious order.

## **How is this achieved?**

It begins with a change in attitude on the part of the leadership team, who must have a clear definition of the organisation's vision and values and the role of premises within that vision. It involves a paradigm shift in everyone's attitude to premises. They have to stop being protective of the status quo and seek to provide a portfolio of premises that best delivers a given volume of services to a given quality in a given location.

This paradigm shift means the following:

- Our legacy properties are not sacred cows.
- Quality and quantity of service and delivery of our goals will be our measuring rods.
- Our premises portfolio must enable us to achieve these goals.
- We give clear premises requirements/resources to our property team and expect them to deliver same.

The reality is that what is required in charities, especially in regard to property, is leadership. It requires the leadership team to say why things are being done this way and not that way. It requires the leadership team to ask hard questions and to challenge the status quo, particularly in relation to property which has been the traditional figurehead of the charity's presence in the community. Jesus Christ would have said 'Close the convent that has space for twenty sisters but currently houses two and costs an arm and a leg to run'. He would have said 'Sell the surplus and use those resources to feed my lambs and my sheep!'





## So what has all this to do with the topic of this conference, which is ‘The Property Crisis and taking a Strategic Approach’?

Unlike businesses, charities have one great thing going for them and that is, generally speaking, that they are not totally driven by time and by annual budgets. The slump in the property market will end. The property market will recover and with it the ability to realise assets.

Secondly, most good property strategies take a considerable time to implement. Liam will tell CIDP’s experience, while in the case of Bloomfield Hospital it took over six years from start to ultimate finish, the first four of which were involved in planning, without any large-scale expenditure.

Thirdly, another positive aspect of the property crash is that things that were impossible because of high land and construction costs will now cost a lot less to achieve.

Fourthly, there is now a wide availability of property of all sorts in towns and cities. Owners who would not sell for love or money two or more years ago are now very willing sellers. One neighbouring plot of land that I wanted to buy for a client to enable an extension was previously un-buyable at any money and is now on offer at a fraction of the figure we might have paid two years ago.

As they say — ***‘you should never waste a good crisis’***.





I would like to have had time to talk about the role of the property committee in the management of a charity's property portfolio and in giving independent and informed advice to the Board or leadership team. It is a critical role, and needs careful structuring. One of the things that I have difficulty with is that members of a charity's property committee also supply professional or other services. I am a great believer in the maxim that no one should benefit from their own advice!

I would also like to have had time to talk about the role of project management in identifying and implementing property-related projects. Too often, project management is simply seen as managing the construction part of the project without allowing for its role in analysing options, preparing the brief and delivering the overall project on time, on quality and on budget. Most projects that go wrong do so because of failures before the project goes on site and not after. The problems only emerge when the builder is on site.

I would say that if anyone wants to talk to me about the formation and management of a property committee I would be happy to meet with them at coffee break.

In regard to Project Management, or Project Direction as I would prefer to call it, my Partner, Frank Murray, has prepared a Guidance Note on the issues and this is available to anyone who would like it by just giving their name to one of my team at coffee.

I would conclude by noting that one of the biggest problems with managing a property portfolio with complete objectivity is a psychological one — that Irish people all love property, a passion not shared by the Germans or the French or by most other Europeans. We all talk property; we all talk buildings, we all look at the pictures in the property press. We follow the progress of the property tycoons, whether they're building skyscrapers in Ballsbridge or are involved in messy litigations or other machinations of NAMA. We look at show houses as a pastime.

Maybe it is because you only need to scratch any of us to find our rural background, with its innate love of the land as a result of 800 years of not having ownership. It is in our genes and needs to be recognised as distorting objectivity. Everyone's being an expert is a factor to be taken into account in managing a charity's property portfolio. This makes it much more difficult to arrive at decisions through a consensus process. It is one of the reasons why a high-level vision is critical arriving at important property-related decisions.

The leadership team must make the effort to be totally dispassionate about the property they occupy. Be dispassionate about ownership versus leasing. Be dispassionate about legacy property. Be dispassionate about being in town X rather than Y. Think only of the service quality being provided and the best use of scarce resources. Think of property as a slave to the Mission rather than the other way round.

Think strategically about your property. It is the most expensive item in your capital budget and the second most expensive item in your annual budget — get every last bit of value out of it.



**Thank you.**