

MARK THE EVANGELIST PROPERTY BUSINESS CASE OVERVIEW

The Business Case for the Mark the Evangelist Futures Project is expected to be completed in March and April for submission to the various councils of the Church for approval. This overview provides a preview of the very large Report (currently 452 pages including appendices) which will be presented at that time for consideration.

In summary, the reasons for this project are:

- Union Memorial Church requires substantial work to bring it up to a fit-for-purpose state;
- The cost of this work is prohibitive; and
- The Congregation of Mark the Evangelist (MtE) needs to know what alternatives are available meet the following criteria – adequate space for mission including worship, financial security, and an appropriate local presence.

The critical success factors of this business case are:

- Over 16 months the feasibility study extensively explored options identified by MtE, the project consultants, and Synod property development staff;
- The Congregation resolved by majority vote its preference for Property Option 5.a+, basing their future worship on the relocated 1859 bluestone Church (the Hall) with maximised meeting space rather than Union Memorial Church;
- Property Option 5.a+ provides the basis for MtE financial sustainability into the future.

Financially, Property Option 5.a+ results in net sale proceeds (\$7.9m) which will allow for:

- church missional building renovation (\$1.7m);
- an IOMF to finance the core expenditure (\$172k p.a.) of UnitingCare Hotham Mission;
- ongoing MtE expenditures (ca \$350k p.a.); and
- through BOMAR, a contribution (\$1.0m) towards the wider work of the church.

The implementation of this property option will be effected by:

- selling the property in February 2018;
- starting the building renovation in June 2018; and
- completing the renovation by January 2019.

1.1 Options Explored

Seven different property options were explored over the sixteen months duration of the feasibility study. These options – together with further sub-options - ranged from selling the whole site and purchasing, leasing or amalgamating elsewhere, to staying in Union Memorial Church and selling three-quarters of the site, including the 1859 bluestone Church (the Hall). The involvement of the congregation in this discernment process was extensive. The congregation's preferred option was to stay in the 1859 Church and sell three-quarters of the site, including Union Memorial Church (UMC).

1.2 Heritage and Planning Advice

High-level Heritage and Planning Advice to inform the Property Options was obtained from consultants who are experts in their respective fields. The advice received has been integrated into the Property Options Assessment and has informed the assumptions used in this Business Case report.

1.3 Building Concepts and Key Assumptions

Concept designs, informed by Planning and Heritage advice, were prepared by Architects for each property option to maximise the development potential of the site. Site measurements were used to inform the opportunity to convert the heritage-listed buildings into alternative uses. The concept for the subdivision and development of the preferred option will still be

subject to Heritage Victoria and City of Melbourne approval at the next Concept stage of the project.

1.4 Mark the Evangelist (MtE) Mission Objectives

The Mission Objectives confirmed in August 2015 relate to serving the community evangelistically through worship, spiritual expression and service, and involve using resources to make positive contributions to the wider UCA Church and community. The Mission Objectives are identified under five broad headings:

- Being Served: Faithful Christian Worship
- Being Served: Diverse Spiritual Expressions
- Serving the Community - Service
- Serving the Community - Evangelism
- Serving the Wider Church

At the outset of the feasibility study, each mission objective was elaborated and the associated property objective was spelt out. The space requirements to meet those property objectives were then identified. This report includes an assessment of how each option satisfies MtE's Mission Objectives.

1.5 Financial Feasibility of Each Option

Detailed financial feasibilities have been compiled and analysed by the Project Consultant, SEMZ Property Advisory. The feasibilities are based on the collective input of the consultant team including an Architect for drawings, Planning and Heritage specialists, and a Cost Planner for cost estimates of the works. The financial analysis shows the outputs of each Property Option in terms of the net proceeds realised for MtE upon the completion of that Option. It also looks into the detail of the 2016 operational deficit, cash at bank, and the depletion of MtE financial resources over time. This analysis shows the preferred Option to be among the five most likely alternatives, given the financial performance results which emerge.

1.6 Operational Cash Flow Analysis

The financial objective is that each Property Option considered should generate sufficient proceeds to support MtE and its Hotham Mission expenses. The Operational Cash Flow Analysis overlays the proceeds from the property options onto the business operation of MtE. For each option, total income, total expenses and the net operating position are calculated from the 2016 MtE Budget and forecast into the future. The purpose of this exercise is to show the impact of the proceeds of each property option on the operational performance of MtE.

1.7 Site Development Program

Each property option has an indicative time line that shows a delivery date for the proceeds of that option to be realised. Selling the site, including disposal of a portion, indicatively would involve a year-long process. Alternatively, an option which involves residential development could indicatively take up to four years until proceeds are realised, given the approvals and permits which would be required.

1.8 Overall Feasibility Assessment

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 Option Report discounts four of the options or sub-options 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.

1.9 Conclusion – the Five Property Options for Consideration

Following the investigation that was undertaken as part of the Strategic Property Options Report, the Options that best satisfy missional, financial and commercial objectives for consideration by MtE are:

- Option 1 – Sell the whole site, then purchase, lease or amalgamate with another Congregation
- Option 5.a – Stay in the 1859 Church (the Hall) and sell three-quarters of the site including UMC.
- Option 5.a+ – Stay in the 1859 Church (the Hall) and sell three-quarters of the site including UMC (maximise the meeting space available)
- Option 6.b – Develop then sell two-thirds of the site and stay in UMC and the 1859 Church (the Hall) (minimal restoration option)
- Option 7.a – Stay in UMC and sell three-quarters of the site including the 1859 Church (the Hall)

1.10 Recommendation – Property Option 5.a+ Preferred

Property Option 5.a+ is MtE’s preferred property strategy. It has been confirmed by MtE that Option 5a+ (with maximised meeting space) best satisfies the Congregation’s mission objectives and preferences. It also provides an acceptable commercial return to MtE in comparison to each of the options considered, and presents the congregation with an acceptable return with due account being taken of the risks involved. Should MtE proceed under Option 5.a+, then a review of their operational budget will be undertaken in tandem with the next phase of the process, to ensure the best possible financial position in which MtE might operate, within their means.

Options involving restoration and retention of Union Memorial Church were not favoured for a number of reasons including the following: the estimated cost of restoring the superstructure of the building and the interior at a minimum of \$4 million is very high; the exterior and interior heritage requirements represent significant constraints; and future maintenance risks are considerable.

1.11 Risk Analysis

The common risk applicable across all Property Options is that of not acting during this period of market buoyancy. Swift action is required to take advantage of the market opportunity, and the risk of not doing so is that maximum value may not be achieved from the Options proposed. Property development 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. The preferred Option minimises these development and heritage risks. The summary of key risks associated with Option 5.a+ includes:

- Planning
- Sales price achieved
- Lack of buyer interest
- Niche developer market
- Heritage
- Subdivision
- Parking requirements

1.12 Summary Proceeds for MtE – Property Option 5.a+

Property Option 5.a+: Stay in the 1859 bluestone Church and sell two-thirds of the site including UMC (with maximised meeting space)

High Level Financial Analysis (amounts rounded to \$ 000s)

Total Net Revenue	8,894
Total Costs (Inc. Finance)	1,028
Land Value	8,894
Net Profit	7,866
Total Equity Required	0
Additional Equity Required	0
Project ROC	-
Equity IRR	-
Project IRR	-
Project NPV	-
Missional & Form 3i Costs	1,651
BOMAR Contribution	1,034
MtE Net Proceeds	\$ 5,212

The BOMAR contribution for wider church sharing was calculated on the basis of the decision of the BOMAR Board on 20 September 2016. The Board acknowledged Mark the Evangelist's missional support for its integrated agency UnitingCare Hotham Mission. Accordingly BOMAR supported an exemption to the Property Sale Proceeds policy for Mark the Evangelist to provide a source of income for the continuation of the current UnitingCare Hotham Mission allocation level. The request to BOMAR which will be presented with the final full Business Case will relate to the one policy variation requested, the final figures for the current UCHM expenditure, and the resulting contribution to the wider work of the church.

1.13 Proposed Cash Flow Projection – Property Option 5.a+

Proposed Cash Flow Projection (amounts rounded to \$ 000s)

	2016	2017	2018	2019	2020	2021
Total Revenue	599	307	519	521	522	523
Total Expenditure	724	519	500	512	525	537
Net position	-125	-212	18	8	-2	-14
Cash Reserve	\$ 2,427	\$ 2,215	\$ 7,445	\$ 7,453	\$ 7,451	\$ 7,437

1.14 Next Steps

Starting with the review and completion of this Business Case, the next steps will proceed through the Presbytery, Property Application Review Team, BOMAR, Synod Finance Committee and Synod Property Board approval stages in March and April. Form 3F and 3I stages will begin in May 2017 leading to an expected property sale in February 2018, with building construction starting in June 2018 and finishing in January 2019.

Mark the Evangelist
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