



Membership Discussion Paper – Horse Council of British Columbia Potential Building Sale

Background

In 2012 the membership of Horse Council of British Columbia (HCBC) purchased the premises at 27336 Fraser Highway in Aldergrove. At the time the building served to house HCBC provincial office staff, equipment, facilities for a large mailing operation, as well as large quantities of printed materials, and other inventory. Additionally, the space contains a large Board Room which is convertible to a 24 seat class room. The building also allowed HCBC to lease 50% of the unused space and collect rental income. Currently, two tenants occupy the rentable square footage and generate approximately \$41k per year after taxes and expenses.

As operational, printing, inventory and in-office staff requirements have evolved, our need for office space has changed. With a mandate from the membership to have staff throughout the province, most new hires are remote and with the exception of the administration team, most other staff work under a hybrid setup (working partly from the office and partly from a remote location). Additionally, in-class room training has been replaced through online channels, and the organization now mails out only a fraction of printed materials that it did 10 years ago.

Additionally, the current building is in need of many repairs and upgrades. The building was originally constructed in 1993 and at 32 years of age, the building is at a point where significant resources are required to be invested. There have been four water related damage incidents in the past 3 years. There are currently repairs or replacements required on the roof, windows, building envelope, foundation, sprinkler system, exterior pipes, and interior refurbishment. These costs are currently estimated at between \$320,000 and \$500,000.

With these factors in mind, the Board of Directors (through a committee of the Board) and senior staff have undertaken a process to evaluate the best use-case for the building asset for the HCBC membership.

This includes the following work:

- Obtaining Four Statements of Value for the existing property from commercial real estate firms
- Consulting with tax specialists to evaluate any potential capital gains impacts on the sale proceeds
- Completing a survey and evaluation of market rent in the Aldergrove area
- Financial modelling on different sale and property upgrade scenarios
- Evaluation of existing inventory on the market, to determine if alternative purchase options are available
- Project plan and timeline for the possible sale of the current property and purchase of a subsequent property
- Evaluation of low-risk investment options for building sale proceeds

Based on the information that has been received and evaluated by the Board of Directors Building Sale Evaluation Committee, they **have decided to recommend the sale of the current property** and use of the sale proceeds to purchase more suitable space to reflect current needs and to set up a managed endowment to further expand grant funding programs for HCBC.

The following information outlines key factors in the Committee's decision making as well as a potential timeline and the next steps in the process.

Factors used for consideration

- Statements of Value for the property indicate a value of \$4m or more. If \$2m were to be set aside for a new office space, the balance could be used to create an endowment fund that could be used to fund expanded grant programs. At the low end of the estimated sale price the endowment would sit at \$2m and would be estimated to bring in \$90k per year at 4.5% (based on current conservative managed corporate bond yields).
- The age and investment needed in the property have resulted in the building requiring a substantial financial outlay to maintain the status quo. Repairs and upgrades to the roof, windows, doors, foundation, building envelope, electrical systems, sprinkler systems, and interior flooring and fixtures need to be budgeted and completed if the building is going to remain operational. **The initial estimates for this work are between \$320k-\$500k** depending on the extent of interior wall damage and mold, the ability for the sprinkler system to be upgraded or replaced, and the extent of foundation and building envelope work required that would need further investigation to better understand the extent of the repairs.
- Property management issues are taking up larger portions of key staff time each year. Most issues require the attention and management of the Executive Director and the Manager, Finance and Administration. While on a month-to-month basis, this is manageable, there are increasing issues taking large amounts of time to address such as growing amounts of homelessness and crime on the property, project managing repairs and tenant issues. The previous year saw a burst pipe in a tenant space which removed key staff from regular duties for more than three weeks. This time is being taken from more strategic opportunities.
- It is becoming increasingly challenging to attract and retain staff willing to commute and travel to Aldergrove. Even though programming staff can have their roles tailored for remote work, core administrative staff are still required to be within the office to serve members and support the remote team.
- Despite the initial redevelopment, currently Aldergrove is experiencing increasing levels of crime, homelessness, and drug challenges. Staff are often required to chase homeless people from the property, drug addicts have wandered into the office and have resulted in a locked front door policy, and recently there have been three separate attempts to break into the building. Staff are also frequently required to pick up needles that have been left and pose an unnecessary health and safety risk.
- Because of the current building condition, tenant lease arrangements are well below the rentable market value (\$22-\$25per sq./ft.).



- Operationally, HCBC no longer requires the amount of current office space that we have. With a mandate to have staff located throughout the province, HCBC currently has a remote and hybrid work culture. At present three of our staff work completely remotely and most others work a hybrid schedule with part of their work week occurring remotely. Most staff (apart from the administration team) would go to fully remote roles. This is a strong preference for staff presently. Additionally, we have drastically reduced our mail operations over the past decade, due to digital payment and renewal options. Digital preferences for magazines and publications have led to inventory now only being ordered on an as needed basis. Additionally, print shops are better able to offer more cost-effective short print runs, which have resulted in the organization needing to inventory far fewer printed materials.

Financial Considerations

Below outlines the three main financial scenarios that were considered in the decision-making process.

	Scenario 1 – Sell the property and purchase an alternative, while setting up an endowment fund	Scenario 2 – Invest in building upgrades to achieve market rate rentable space	Scenario 3 – Maintain the status quo
Rental income after taxes and expenses	\$0	\$50,500*	\$42,000
Condo/Maintenance Fees	(\$15,000)**	\$0	\$0
Forecast Endowment Fund Interest (4.5%)	\$90,000***	\$0	\$0
Estimated Annual Income	\$75,000	\$50,500	\$42,000
Estimated Capital Improvement Costs from Cash Reserves	\$0	\$350,000-\$500,000	\$220,000-\$320,000

Notes:

(*) Assumes HCBC would be able to achieve a 20% increase in rental income after taxes and expenses for an upgraded office building in the existing location.

(**) Assumes a Condo Office Fee of \$0.50/ Sq.Ft.

(***) Assumes a professionally managed fund in secure low-risk bond investments yielding 4.5% annually after fees.

Based on the financial considerations reviewed, scenario 1 maximizes the annual return to the HCBC membership, while minimizing the impacts on current cash reserves.

Timeline/Next Steps

March:

- HCBC Member feedback on the business case and use proceeds from a potential sale of the current HCBC office building (March 10-24).
- Final recommendation of the Committee to the Board of Directors. Board of Directors to decide whether to authorize the sale of the asset or not (March 31 meeting).

If the Board of Directors decides to proceed with the asset sale:

April

- Contract awarded to Commercial Real Estate Firm (April 1).
- Building placed on the market for sale (April 15).
- Staff begin working on office transition and move plans.

April and beyond – Building Sale Evaluation Committee reviews any offers and makes recommendations to the Board of Directors on how to proceed.

The Building Sale Evaluation Committee is comprised of the following members:

Committee Chair, Yvonne Darcel CPA, HCBC Director

Sharon Pickthorne, HCBC Treasurer

Kersten Taylor CPA, HCBC Director

Kam Chutti (Advisor - HCBC Manager, Finance and Administration)

Lynda Atkinson (HCBC Board Chair, Ex-Officio)

Craig Cherrett (Executive Director, Ex-Officio)