



Property roundtable:

## CREATING PROPERTY STRATEGIES TO ENHANCE YOUR CHARITY'S MISSION

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# Roundtable

## Panel:



**Karli Hiscock is a partner at law firm Bates Wells**



**Jamie Huard is a partner at law firm Bates Wells**



**Socrates Socratous is charity VAT partner at Buzzacott**



**Antonia Swinson is CEO of the Ethical Property Foundation**



**Jamie Mccombe is head of investment management at Cluttons IM**



**Ralph Pearson is head of commercial agency at Cluttons**

Investing your charity's funds in property – for occupational or investment purposes – can be hugely advantageous. Pumping money into the property market at the right time can help your charity to earn a considerable amount of income over both the long and

short-term, and investing in prime locations is likely to earn you even more. But property can also come with a number of underlying issues that can have adverse effects on your charity's financial state and/or reputation, making careful planning absolutely essential.

Earlier this year, *Charity Times* held a roundtable discussion looking at what charity property strategies should look like during periods of economic uncertainty. The conclusion was that risk assessments and forward-planning were both fundamentally important.

But now, during a time of heightened sensitivity and reputational risk, property strategies are evolving. The need for careful planning is a given and investing in property runs the risk of being destructive if this planning doesn't take into account the ethical and societal issues involved. What is your charity for? What is its mission and what are its values? How will the property you are buying, renting or investing in complement that mission? Furthermore, how will it advance it?

*Charity Times*, in partnership with Cluttons, Bates Wells and Buzzacott, gathered a panel of property experts from across the charity sector to discuss how charities can include the answers to these questions in their property strategies; using property as a way of not only making an income – but of advancing their charitable mission, too.

Kicking off the discussion, Antonia Swinson, chair of the panel and chief executive of the Ethical Property Foundation, considers how property can sometimes trigger less than ethical behaviour. "Anyone who has ever played Monopoly will know that landing on property will often bring out the worst part of human nature," she says. "We make decisions for our beneficiaries and if





we are not careful, can forget the societal, environmental and community concerns that could be involved.

“What is our sector for? When decisions centre on property, they need to be aligned with our social mission. Charities do not exist in isolation. We are interconnected with our communities and society.” she explains.

### A new generation

The good news is that there is a new generation of trustees and senior leaders who are looking at assessing whether the property they own is still fit for purpose, explains Ralph Pearson, head of commercial agency at Cluttons.

However, he notes how there are two common “blockers” that can prevent many of these leaders from taking societal and ethical issues into account. “Firstly: ownership,” he says, “trustees in particular can find themselves wedded to buildings and can sometimes fail to objectively check on whether the accommodation is ‘fit for purpose’. Legacy properties can add an extra layer of complexity, too.”

The second blocker, Pearson explains, is restricted leases for tenants. “Charities that are renting assume they can’t get out of their lease because alienation provisions are incredibly restrictive. But landlords are increasingly more open-minded. There are things you can do to unlock those restrictive causes. Can you take a longer lease? Pay a little bit more rent, perhaps? There are often solutions worth looking into.”

“It really is just essential trustees

*“Ask yourselves the question: is it appropriate for our charity to be doing that?”*



act in the best interests of their beneficiaries, keeping the purposes of the charity central to its decision-making,” Jamie Huard, partner at Bates Wells adds.

“This means safeguarding assets and ensuring whatever decisions you do make surrounding property are made after asking yourselves the question: ‘Is it appropriate for our charity to be doing that?’”

### Community purposes

So how exactly is this carried out in practice? Huard provides an example of a situation where a charity and its trustees made an active decision to incorporate the charity’s mission into its property strategy. “This particular charity was looking to sell the building they owned and had been looking at the Charities Act to understand whether price was the only consideration in relation to the disposal of the property”.

However, there was an issue with affordable housing in the area – a problem that was exacerbated by low employment levels, with many people and key workers, in particular, unable to get into the property market, he says. “There were a number of community concerns involved for the charity.”

“So, whilst they were going through a process of wanting to sell the property for the best price

obtainable, they were also looking at whether there was a community element they could build into the process. They naturally felt a sense of responsibility to the community as this was part of their charitable objects,” he adds.

“With this in mind, they sold the property subject to the buyer building a new community hall for the community to use and two keyworker flats and then selling the rest of the property for as much as possible,” he continues. “But the point is that the trustees were clear they wanted to build a community element into their property strategy. They wanted to look at the ethics of just selling off the entire property for residential purposes, and weighed it out against the advantages of a more community-led approach and it worked well.”

### Tax and VAT implications

There are a number of ethical considerations to be made during a property transaction, especially for community-led charities, but the ethics of some of the more technical elements can often be forgotten. Socrates Socratous, charity VAT partner at Buzzacott, explains how “every charity has got an obligation to consider whether what they are doing can be frowned upon by HMRC”.

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"I am often asked about whether or not a particular structure, which has been designed to try and mitigate VAT, actually crosses the boundaries of tax avoidance," he says. "And when you're looking at utilising properties in different ways [as per Huard's scenario], this is something that needs to be carefully considered."

"Whatever structure you're looking at, you should always remember there are tax considerations, and that it's worth understanding how to cross that boundary carefully without too many negative implications."

## Aligning your investment portfolio

For many charities, investing in property solely for investment –

## *"Environmental and social issues are much, much higher on the agenda"*

rather than occupational – purposes can be a huge source of investment income. Jamie McCombe, head of investment management at Cluttons IM explains how commercial property has generally outstripped other traditional asset classes like gilts and equities over the past 20 years.

"Over the last 45 years, UK commercial real estate has provided a real annualised return of 3.7 per cent, which amounts to 6-7 per cent per annum on a nominal basis. Looking forward, we're expecting returns of about 4-5 per cent per

annum over the next five years. So, whilst we are within a lower return environment at present, the long run history is not dissimilar to what you're likely to be looking at going forwards," he tells the panel.

However, McCombe argues that the world has changed "quite considerably" in the last few years and even non-charitable organisations are now taking ethical investment much more seriously than they have done in the past.

"Environmental issues and corporate social responsibility are much, much higher on the agenda" he explains. "But when you're investing, that has to be balanced. Ultimately, you're investing for a good return and environmental considerations and corporate social responsibility can come at a cost, so it's a balance worth striking carefully."

Property can be a good solution to striking the balance, providing the property being invested in is being used for a purpose that doesn't detract from your charity's overall mission. Part of this is ensuring the property doesn't pose too many financial risks on the charity. "I meet lots of charities that tell me they own a single building in central London and it's providing all of the income for their charity," McCombe notes.

"As an investment manager, I feel there are just far too many risks involved with that. If something goes wrong with said property, what are you going to do? You're going to have all this capital wrapped up in one building."

"If you've got less capital available, mitigating single asset risk is vital and owners must ensure a proactive asset management plan is in place to do this. Diversification of risk should always be considered, particularly if limited capital is available for investment. Ultimately,



whether a direct or indirect investment approach is adopted, it is all about maintaining income flow for the majority of charities whilst positioning capital so that is protected over the longer term,” he adds.

“So, if you want to get into commercial property then great – the returns over the long-term are good – but just don’t take too much specific property investment risk,” he concludes.

### Future-proofing

Whether your charity chooses to invest in a single property for occupational purposes, or chooses to invest in a portfolio of properties for investment purposes, the panel argues ‘future-proofing’ your property investments is essential for ensuring property doesn’t pose any risks to your organisation over the long-term.

“On an occupational level, your permitted use is incredibly important,” Karli Hiscock, partner at Bates Wells explains. “We’re finding a trend with clients that want to use the relocation of their head office as an opportunity to bring some of their services in-house and provide a hub-style arrangement for example bringing their service users to their main office rather than have separate premises in various locations for various functions. However, there is an element of future-proofing for of your property strategy required here. Organisations may need less space than they used to due to an increase in technology and agile working, but organisations need to ensure they can maximise the use of that space whether for uses other than as an office or possibly subletting or sharing.”

One panellist agrees that it’s essential to ensure every property strategy aligns with the charity’s overall strategy. “An issue for us has



been assessing how we manage our property portfolio today, in relation to how we will need to manage it in the future. For example, we have got a really ambitious strategy, which is all about localism. It’s about services and retail being in the same unit; about more people working from home and less office space.

“So we know the decisions we make with regards to our property now need to align with our overall strategy for the longer-term. Discussing this issue today has heightened the scale of the problem I have to solve.”

Swinson concludes by highlighting the impact a mission-based property strategy can have on beneficiaries. “Many of our clients are working in

very challenging parts of civic life. They need appropriate premises that will enhance the beneficiaries’ experience. And if the property you invest in doesn’t do this – is it actually helping you to deliver your mission? There are real opportunities to make a difference – through property as much as people.”

“Grenfell Tower was a terrible example of where property failed civil society and the repercussions for the property industry, the council and the community are going to be felt for a very long time,” Swinson says.

“Every property decision we make has an impact on people’s lives, so as charities we need to ensure our impact is as positive as possible.” ■