

Church Solutions

THE CHANGING LANDSCAPE OF CHURCH REAL ESTATE

By: Matthew Messier

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The condition of the economy has negatively impacted the residential and commercial real estate markets. Foreclosures are at an all-time high, and capital (credit) is almost nonexistent. Churches haven't been immune to this economic environment. In fact, many have been deeply impacted, as they are dependent upon attendees' tithes and offerings.

The biblical ideal of first fruits often takes a backseat in difficult times as people need to pay the household mortgage or the health insurance premium. Thus, nationally, giving is down, which has created a crisis in many churches whose growth and income projections were based on 2007 and early 2008 figures. When the American economy sneezes, the American church catches a cold.

Decline in Property Value

During the last eight months, there has been a significant drop in the market value of church properties for sale across the country, especially in the Midwest and Northeast. There are many reasons for this.

First, many potential buyers have decided to stay on the sidelines, waiting to see what the economy will do. Very few people will get on a ship if they don't know where it's headed. The same applies in real estate. Conventional wisdom says it's better to do nothing than to do something and find yourself in a worse situation. The unknown has a tremendous influence on action or, perhaps more appropriately, inaction. Lower demand equals lower values.

Second, there is an increase of church properties coming on the market from a source that historically has had a very small influence: lenders. There's a dramatic increase in the number of church properties foreclosed on by lenders, as well as properties being placed on the market by an owner at the recommendation or threat of foreclosure by the lender. Within the past couple of months, realtors have listed more foreclosed church properties than we have in the past 10 years, with many more foreclosed properties to follow. High supply equals lower values.

Finally, as mentioned earlier, the impact of foreclosure on property devaluing is even greater in the Midwest and Northeast. With the population shift – people moving south or west looking for work – there are fewer people in places such as Ohio, Michigan and Pennsylvania attending church. Often, attendance reaches a level where the church can no longer sustain a building, let alone ministry, and must sell. Fewer people in the community means a smaller potential buyer pool, which ultimately means lower demand, and properties not selling at their highest and best use.

Difficulty Obtaining Credit

The issue is not that there isn't money to lend, rather, that lenders are nervous about whom they lend to. In today's market, the company that's been around for 80 years may not be around tomorrow. In the past, banks that lent to churches looked at both the cash flow of the church and the value of the asset the church occupied or was looking to purchase. Often, substantial weight was given to the asset's value as well as its future potential worth, because of the rapid appreciation of property values across the country. If the church couldn't make its mortgage payment, the lender would receive an asset worth substantially more than what they were owed. In the past eight months, though values have dropped significantly, anywhere from 20 percent to 40 percent. Thus, cash flow is what lenders are considering in the deal, along with substantial equity.

Last year, it was standard for a bank to require 20 percent down on a sales transaction. Today, many of those same banks won't even make a loan, but if they do, will require 30 percent or 40 percent down. The fear is if they receive property back, it may be worth 30 percent or 40 percent less than at the origin of the loan. Although the church may be purchasing a property at a great price, well below the appraisal, what the bank wants is a strong cash flow from the church to justify the debt of the property.

I've counseled many churches to save and to not buy property too early. I've also suggested they not refinance without truly understanding the reason why. Too many churches today have leveraged themselves into a position where the church exists to pay a mortgage rather than to provide ministry. As the church's finances go toward a property and less toward ministry, a vicious cycle begins. The tool (property or building) they thought would help bring people the Good News of Jesus will, in fact, do the opposite – and drain the church's resources. As Proverbs 22:26-27 so clearly states: "Do not be a man who strikes hands in pledge or puts up security for debts; if you lack the means to pay, your very bed will be snatched from under you."