

CALIFORNIA REAL ESTATE JOURNAL

PUBLISHED WEEKLY ■ SEPTEMBER 4, 2007

Divine Intervention

DEVELOPMENT *While selling real estate can be an economic boon for churches, some don't take into account expansion needs down the road*

BY KEELEY WEBSTER

CREJ Staff Writer

Traditionally, churches with large congregations have been sophisticated in how they have dealt with their real estate assets.

Those churches would use the excess real estate they own and money raised through fundraising efforts to develop housing for the poor and elderly in urban communities overlooked by for-profit developers.

Churches with smaller congregations often have developable real estate as well, but they may be less likely to have real estate expertise available to tap and sometimes they don't know when to seek it out.

That can be to their detriment especially in the current real estate marketplace where markets are growing and land prices are rising forcing for-profit developers to expand their reach into new areas.

Bill and Dawn Lowder, a husband-and-wife team who work out of NAI Capital's Ontario office, specialize in helping church and church-related nonprofits develop or market their land for sale.

The Lowders founded Christian Commercial Services Inc. in Rancho Cucamonga in 1992, merging with NAI Capital in 2002.

Bill Lowder said he has seen situations where churches sold off unoccupied houses they owned nearby only to regret it later.

"It helps to finance church activities for a time, but years later when they want to expand they discover they don't have enough land [on which] to expand," Lowder said.

For example, churches built 80 or 100 years ago might only have enough parking for eight cars, because people used to park on the street and walk. When churches seek to expand to accommodate growing congregations, church leaders may discover that zoning laws that have evolved over that timeframe and now require parking spots at a 2-1 or 3-1 ratio relative to the size of the congregation.

When Lowder works with churches, he first

investigates what their needs will be.

"I won't go in and say you have three acres, you should sell to a homebuilder," Lowder said. "I'll ask them where they want to be in five years."

If he's told the church hopes to double in size over the next five years, he advises not to sell or it won't have enough land. That happens 50 percent of the time, Lowder said. While he and his wife want to do deals, it's more important to do the right thing, he said.

"Normally, if the church doesn't have someone guiding them, they will sell for less than they can achieve," Lowder said. "We recommend they get an appraisal."

'Institutions of faith are often gifted with homes when parishioners pass away. I've seen faith-based institutions sell the property because they don't have the capacity to manage the property.'

Rev. Douglas Nelson — The Levitical Network

He has also seen situations in which a congregation purchased land to build a church on and then discovered it couldn't get the property entitled.

"The government requirements to develop land require much more paperwork than it did historically," Lowder said. "The average church doesn't have the expertise or resources to deal with this."

The Lowders aren't the only ones who've witnessed the quandaries that churches and nonprofits have found themselves in when they operate without seeking advice from people with solid real estate expertise.

Richard Gentilucci, president of BTG-Advisors, and Rev. Douglas Nelson, chief executive officer of The Levitical Network, both founded consulting companies to advise churches and nonprofits about developing their real estate.

"I saw a project where a developer had entered into a purchase and sale agreement to buy a piece of property from a nonprofit,"

Gentilucci said. "They had listed with a broker and it was extremely undervalued. I've seen that happen on several occasions."

Some churches will use a friend who has a broker's license, or someone known by a member of the board, but they aren't really qualified to give the market value of the property, Gentilucci said. The result is that the property is undervalued and the developer makes a profit from day one, he said.

"Ministers and pastors have not gone through real estate school and don't have a Master's in business administration or experience dealing with the entitlement process," Nelson said. "Institutions of faith are often gifted with homes when parishioners pass away. I've seen faith-based institutions sell the property because they don't have the capacity to manage the property."

Maximizing Value

As churches recognize that one of the most important assets is real estate, the challenge then becomes maximizing the value.

Larger churches like the West Angeles Church of God in Christ formed a community development corporation for guidance, Gentilucci said.

West Angeles Community Development Corp., a subsidiary of West Angeles COGIC, has several office and retail projects in the works designed to revitalize the South Los Angeles neighborhoods where its congregations are located.

"What they do is set up a different corporation, a community development corporation, which is a for-profit organization that is separate from the West Angeles church," Gentilucci said. "The profits go back into the church, but they have to pay taxes on the profits."

Community development corporations have the advantage of being able to get grants to help reduce their costs, Gentilucci said.

The West Angeles church also has hired the CDC as a development consultant to identify a design-build firm for its planned move and expansion, said Jimar Wilson, real estate

project manager for West Angeles Community Development Corp.

In the first phase, the church completed a 5,000-seat cathedral in 2001. In the second phase, the church plans to move its K-8 Christian Academy, a bookstore and counseling center from scattered locations between 30th Street and Jefferson along Crenshaw Boulevard to the same eight- to 10-acre property that houses the church sanctuary.

The CDC plans to build a mixed-use project on the space freed up on Crenshaw Boulevard. The completion of Phase II is expected to take six years with two years planned for entitlements.

The CDC gave its recommendation about the design-build firm to Bishop Charles Blake in April, but he hasn't made a decision as of press time. The Community Redevelopment Agency of Los Angeles also has that stretch of Crenshaw Boulevard in its sights as a redevelopment area and is creating a master plan, Wilson added.

Smaller churches without the resources of West Angeles may seek out real estate advisors like Gentilucci and Nelson. The majority of churches have about 100 members, said Nelson.

Gentilucci is helping to pair churches with developers, but also trying to ensure that their interests are properly represented.

One of Gentilucci's clients, The First United Methodist Church located in downtown Los Angeles, wanted to build a new church building. The congregation didn't have the \$60 million needed to develop the 200,000-square-foot, mixed-use project including the church, office and residential space that it envisions for the land, however. The 100 members had been operating out of temporary space in its senior center, since it demolished the building on its property at Olympic Boulevard and Flowers Street in 2002 to make way for the new development.

Church leaders had the good fortune to have architect Wade Killefer, founding partner of Killefer Flammang Architects, do some pro bono work for them. Killefer donated his time to create massing models, which provide three-dimensional representations of the site.

The models both have 50,000 square feet set aside for the church that would feature a sky sanctuary on the roof, two kitchens, multipurpose classrooms and a multicultural sanctuary. One model is a mixed-use project with office space and the other has residential space. The project could include both uses.

In late February, church leaders did a request for proposals. They have since narrowed it down to three developers and planned to make a decision this summer, Gentilucci said.

Another solution for churches might be to allow the developer to build a project, but the church would retain the land through a ground lease.

"The question is how to assist them to refocus their thinking, so they realize they have an asset and can have some short-term capital renting it out," Gentilucci said.

A long-term ground lease is a solution his client, the Immanuel Presbyterian Church located at 3300 Wilshire Boulevard in Koreatown, are considering.

Church leaders hired Gentilucci in June to help them develop two 30,000-square-foot land parcels adjacent to the 1,750-seat Gothic-style church built in 1929.

"The church is looking at ways to maximize the benefits of the land they own in order to ensure that the ministry and its outreach programs are supported well into the 21st Century," Gentilucci said.

The church would like to earn enough from the development to help renovate its 78-year-old building, but also to create a residential development that contributes to the housing or educational needs of the multicultural community it serves. Gentilucci is assisting them with the request for proposals process to select a developer.

-E-mail Keeley_Webster@DailyJournal.com