How To Develop Well:

A Guide To Help Churches Work With A Property Developer

ROOTED GOOD

Introduction

The purpose of this tool is to build confidence and capacity within a congregation that is considering developing their church property.

This is truly a pivotal and unique moment where a congregation can reimage how best to further mission in their community. If you are a congregation seeking to develop your property this is a framework to help you determine what is most important for you and how to structure a relationship with a developer.

This tool will help to generate good conversations within the church so that members and leaders will be able to:

- Understand what matters most to them
- Come to a shared sense of priorities
- Recognize the complexities in developing a church property
- Be able to begin fruitful conversations with developers

This tool is NOT a replacement for professional assistance (legal, accounting, owners representation, etc.) that will be important to secure before entering any agreement with a developer.

Developed in partnership with:

Kngdm Group

Kngdm Group is a majority black-owned real estate developer focused on empowering urban neighborhoods threatened by explosive growth and gentrification. They aim to create partnerships that are FAIR for all parties, building equity for our investors and our communities. They build real estate and invest in people to not just revitalize a community, but to break cycles of poverty and drive wealth creation both locally and for their investors.

Factors at play

There are multiple factors at play in any development partnership, and you will have to determine what is important for you and your congregation. Keep in mind that there is always give and take in any relationship with a developer. As you work through this tool consider:

Ownership	How essential it is to retain ownership of your property?
Control	Level of control that church will have over use of the property, and/or ability to carry out direct ministry on the property after development.
Risk	Level of risk church is willing to bear (debt, vacancy, liability, etc).
Responsibility	Level of ongoing responsibility church is willing to bear such as - daily management, marketing, problem solving, decision making, etc.
Capital Investment	How much property and/or money is the church willing to put into the project and/or borrow to fund the project?
Revenue Generation	How important is revenue generation for the church and how much is the church looking to earn through development?

As you prioritize some factors, you will likely have to accept or give up others.

Tips to keep in mind when developing property

1. Development can increase equity and justice. But if done poorly it can actually make inequities worse. Churches getting into development should do so for the good of the other - to increase equity, to solve community problems, to carry on the mission of loving our neighbors - not simply to make money and certainly not to increase inequality. This means that we need to consider not just where this development is done or what is built, but HOW it takes place.

2. Developing property requires collaboration and partnership between different parties. You will need to develop formal and informal relationships with partners that may include: a developer, an owner representative, neighborhood associations, city planning, lenders, legal support, account support, and more.

3. Even in the best relationship, the interests of a developer may not always align with the interests of your church. You have a fiduciary responsibility to act in the best interest of the church. Be sure to retain your own legal counsel to review all contracts, agreements, etc. Don't just accept what a developer provides you.

4. There are other stake-holders in the wider system that may impact your project even if you and a developer come to an agreement on what you want to do. They may be outside of your control. For example, zoning regulations, neighborhood objections, financing realities, etc. might change or hold up the project even after you and a developer have come up with a plan. Be ready for that possibility.

5. You probably won't be able to "have it all." Partnership usually involves making some trade-offs between different choices. In order to gain or retain some factors you will likely have to give up some others. For example, you can't have all the control, ownership, and revenue without taking on any risk or management responsibility. This tool will help you identify the factors that are most important to your church.

* And last of all - remember your mission! Property development on church-owned property is best done to serve the good of the community and the mission of the church. Don't let that get lost in the weeds!

Create your Development Desires Map

Use this part of the tool to understand what matters most to your congregation. Have each person on a church board fill this out individually and then come together for a conversation. Working together - create a map of your hopes for property development by engaging in the steps below. Then use this map to shape your conversation with possible developer partners, the wider congregation, and other stakeholders.

Note: The alternatives presented here may not be the only options available as you move into actual development, but they provide a framework for understanding what is important to your congregation and a starting point for internal and external discussions.

STEP 1 In each factor determine which of the 3 alternatives is preferable for your congregation

STEP 2 Rank the factors in order of importance to the church from 1 to 6. You may not be able to "have it all" so it is important to discuss which of these factors matter most. You may have to give something up in order to gain or retain what matters most. If you can't rank all of them in precise order, at least identify the two most important factors – those can serve as a starting point for conversations with a developer.

STEP 3 Compare your map with the examples below. Does your map match reasonably closely with any of the example approaches below? If so, that may be a helpful starting point for further conversations with a developer. If not, you may find that your map is going to be difficult to attain (but don't give up on it yet – every deal and situation is unique).

STEP 4 Reflect on what you have learned and discussed:

- What are your top two factors in considering development? (What matters to your church the most?)
- What came up in your conversations that is helpful to keep in mind as you engage developers?
- What surprised you in this process?
- What concerns were raised or in what ways might it be hard to achieve all the factors you are interested in?
- What questions came up that need answering as you move forward?

	LOW		HIGH
	1	2	3

Ownership

How essential it is to retain ownership of your property?

If it is important to retain ownership of property then you may have to be willing to bear some risk in the development. You may gain more control and possibly more income. You may also have to accept more responsibility.

1	2	3
Willing to give up all ownership	Want to retain some ownership but willing to share ownership stake. Ex. 99 yr lease	Want to retain full ownership

Control

Level of control that church will have over use of the property, and/or ability to carry out direct ministry on the property after development.

If you want to control what happens on the property you will likely have to accept more risk and responsibility. You may also need to provide additional capital and/or borrow funds for development.

1	2	3
Don't need any control – anything can happen on property	Don't need direct control but want say over what happens	Want to engage in direct mission and/or ongoing involvement in what happens

Risk

Level of risk church is willing to bear (debt, vacancy, liability, etc)

If you want to minimize risk (organizational and/or financial) you will need to find a partner to share risk. In exchange they will likely want more control and a greater share of the income. To minimize risk the most you may need to give up ownership as well.

1	2	3
Risk averse = prefer someone else accept 100% of risk	Moderate risk appetite = willing to share risk	Risk tolerant = willing to accept full risk

Responsibility

Level of ongoing responsibility church is willing to bear such as – daily management, marketing, problem solving, decision making, etc.

You will need to bear more responsibility for management if you retain most of the income and/or control. Minimizing responsibility may mean giving up control, ownership, and/or income.

1	2	3
Want no responsibility	Open to shared responsibility = willing to deal with issues and decisions	Will accept full responsibility for all issues and decisions

Capital Investment

How much property and/or money is the church willing to put into the project and/or borrow to fund the project?

The amount of income and control you can attain may depend on what you put into the project. If you can put more than just land into the development (capital, borrowed funds, etc.) you will likely be able to realize more of the income and retain more control. If you don't have anything beyond land to contribute you will need a partner who can bring additional capital and they will likely seek greater ongoing income and control in exchange for that investment.

1	2	3
Provide property but no capital	Provide property. May provide some additional start up funds	Provide property + additional start-up funds through financing, fundraising, or savings

Revenue Generation

How important is revenue generation for the church and how much is the church looking to earn through development?

If maximizing ongoing annual revenue from the project is important to you, you will likely need to contribute more capital up front, take more responsibility, and accept more risk.

1	2	3
Seeking one-time payment and/or fixed monthly payment but no profit sharing	Seeking some profit sharing (and possible losses)	Seeking to retain all "profits" (and accept all possible losses)

Church/developer partnership examples

The examples provided here are hypothetical and general in nature and simply for the purpose of highlighting the issues that may come into play. They are not be taken as specific ways to structure a deal nor are they the only options available. Use them to build your understanding about how partnership could work and to compare these examples with your own development desire map.

There are numerous legal, tax, programmatic, and financial implications in how deals are specifically structured. Seek your own legal advice on any deal you enter into (and do not rely solely on another parties' legal counsel).

1. ABC Campus Church

Fee for Service – Church owns and operates

A campus church at a large public university develops a 7-story student housing facility for 250 residents. They provide wellness programing and scholarships for residents as a core aspect of their mission.

They prioritize retaining control, ownership, and revenue generation in order to do daily, active ministry in the student housing facility.

This leads to the following configuration in this order of priority:

Gain/Retain:

#1 ***Control***
Full control

#2 ***Ownership***
Full Ownership

#3 ***Revenue Generation***
Retains all "profit" for mission (and assumes all risk for losses)

In order to obtain desired outcomes the church accepts:

#4 ***Risk***
Total risk

#5 ***Responsibility***
Total responsibility

#6 ***Capital Investment***
Provides all property and financial capital: engages in financing and fundraising for start-up and construction capital

Map:

LOW HIGH

OWNERSHIP

CONTROL

RISK

RESPONSIBILITY

CAPITAL INVESTMENT

REVENUE GENERATION

The Deal:

To achieve this configuration the church pays a fee for service as a % of the total project to a developer for development assistance in obtaining financing and constructing the project. The developer has no ongoing participation in the project after the construction and stabilization period. The church earns all the revenue from the project but also accepts all risk and ongoing management responsibility.

2. Mt. Hope Baptist Church

Land Lease – Church signs 99-year lease for affordable housing

A small-town church enters into a 99-year lease of half of their property so that desperately needed affordable housing can be built for 120 families. The church prioritizes retaining long-term ownership and generating revenue but does not want daily management responsibility or the risk of taking on debt. They do not have capital beyond the property to put into the project. The only control they exercise is an agreement from the developer that the property will be used exclusively for affordable housing for at least the first 25 years of the lease.

This leads to the following configuration in this order of priority:

Gain/Retain:

#1 ***Ownership***
Ownership (with limits of lease)

#2 ***Risk***
Minimal risk

#3 ***Responsibility***
No ongoing responsibility

#4 ***Capital Invested***
Provides no money or land equity for project

In order to obtain desired outcomes the church accepts:

#5 ***Control***
No control for 99 years except to secure the purpose of development for first 25 years (affordable housing).

#6 ***Revenue Generated***
Earn an ongoing stream of revenue, but only a small portion of the total generated by the project.

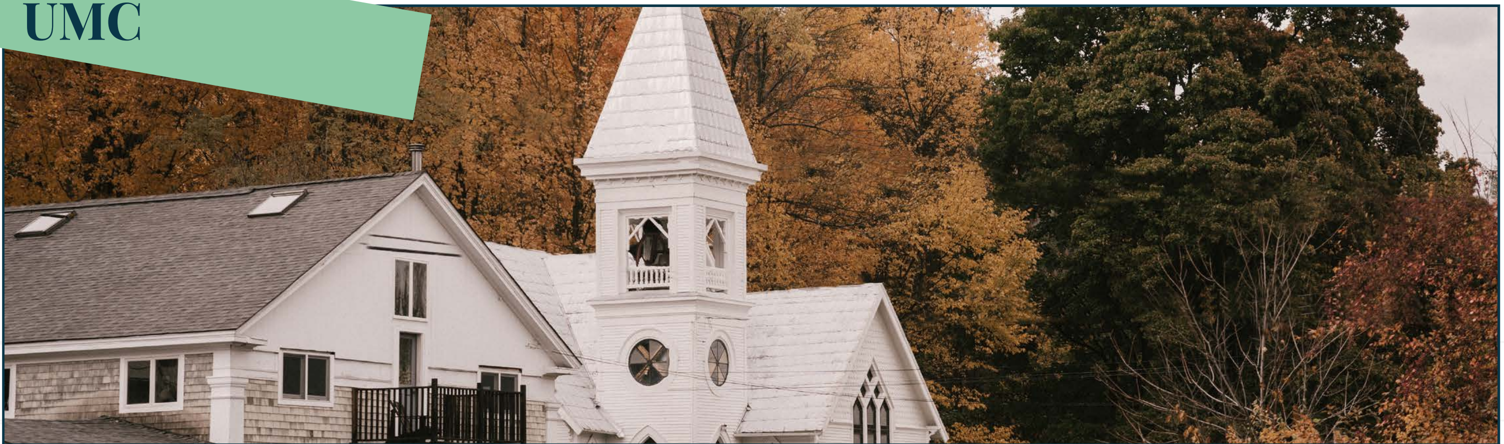
Map:

	LOW		HIGH
OWNERSHIP			●
CONTROL		●	
RISK	●		
RESPONSIBILITY	●		
CAPITAL INVESTMENT	●		
REVENUE GENERATION	●		

The Deal:

To achieve this configuration the church enters into a 99-year lease with a developer for half of their parking lot and a parcel of land containing an unused manse. The developer tears down the manse and builds affordable housing on the property and parking lot. The developer agrees to build only affordable housing but otherwise controls all decisions related to the project. The church receives a base monthly lease payment plus a percentage of any additional profits over a mutually agreed upon amount. The developer handles all aspects of obtaining financing and building the project as well as all ongoing management responsibility.

3. Redeemer UMC



Land Sale – Church sells property for senior housing and impact investment

A suburban church comes to the end of its life and as its final act sells its property (with denominational agreement) to be turned into senior housing. In closing, the church turns a long-held passion for senior ministry into a valuable and needed housing option in the community. The proceeds of the sale are used to help a campus church in the same community build student housing (see example #1). The church and judicatory prioritized re-purposing the property and giving up all ownership, control, risk, and responsibility.

This leads to the following configuration in this order of priority:

Gain/Retain:

#1 ***Risk***
No risk

#2 ***Responsibility***
No ongoing responsibility

#3 ***Capital Invested***
Provides no money or land equity for project

#4 ***Revenue Generated***
Earn a modest ongoing stream of revenue by investing sale proceeds in student housing ministry

In order to obtain desired outcomes the church accepts:

#5 ***Ownership***
Give up ownership

#6 ***Control***
No control

Map:

	LOW		HIGH
OWNERSHIP	●	○	○
CONTROL	●	○	○
RISK	●	○	○
RESPONSIBILITY	●	○	○
CAPITAL INVESTMENT	●	○	○
REVENUE GENERATION	○	●	○

The Deal:

To achieve this configuration the church and judicatory sell the property outright to a non-profit senior housing developer that they are confident will carry on their passion for senior support services. The judicatory receives a one-time payment of $1.5 million for the sale which it invests in the campus church project from example #1. This impact investment helps the campus church finance their building and generates a modest financial return for the judicatory for the next 20 years. The original property changes in purpose but continues a faithful legacy as senior housing AND catalyzes the development of mission-based student housing.

4. St. Matthews Church

Joint Venture – Church enters into joint venture with developer to build homeless and low-income housing

An urban church creates a joint venture with a developer to turn a large, run-down parking lot into 200 units of homeless and low-income housing. The joint venture manages the new facility and provides programming and services to support residents.

The income stream and ownership is shared between the church and the developer via their stakes in the joint entity. The church prioritizes control, partial ownership, and some revenue generation. They put the land into the deal but no other capital.

This leads to the following configuration in this order of priority:

Gain/Retain:

#1 ***Control***
Retain primary control in order to carry out mission through the joint entity

#2 ***Ownership***
Retain some ownership through joint entity

#3 ***Revenue Generated***
Earn a modest ongoing stream of revenue

#4 ***Capital Investment***
Provide no money or land equity for project

In order to obtain desired outcomes the church accepts:

#5 ***Responsibility***
Accept responsibility and oversight of financing, construction, leasing, and programming with assistance from developer partner.

#6 ***Risk***
Accept significant financial and programmatic risk.

Map:

LOW HIGH

OWNERSHIP

CONTROL

RISK

RESPONSIBILITY

CAPITAL INVESTMENT

REVENUE GENERATION

The Deal:

To achieve this configuration the church creates a wholly-owned subsidiary entity that enters into a limited partnership with the developer. The express purpose of the project is to provide homeless and low-income housing. Income, ownership, and to some extent risk, are shared between church and developer proportionally based on the value of land and capital invested by each party. Developer earns an additional fee during development for services rendered. Church retains primary control over how the property is operated and programmed.

5. Grace Lutheran Church

Community Land Trust – Church works with neighborhood to create a community land trust for affordable home ownership and community gardens

A church has more property than it needs in a part of town that is beginning to gentrify. Local residents will soon be unable to afford to remain in the neighborhood. The church works closely with neighbors to create a community land trust (CLT) with the excess land so that 35 homes and 10 community garden plots can be built. The land is owned by the CLT while the homes are sold to members of the community who would otherwise not be able to afford to own a home. Essentially, this approach takes the cost of the land out of the price of the house. New homeowners have to already be living in the local community and the price of the house is permanently pegged to local wages. The only changes in the price of the home will be when the local wages change. The result - community owned, permanently affordable housing. The church cedes ownership and control of land to the CLT and therefore also has minimal risk and responsibility into the future. They put the land into the deal but no other capital.

This leads to the following configuration in this order of priority:

Gain/Retain:

#1 ***Risk***
Shared (minimal) risk as member of CLT

#2 ***Responsibility***
Shared responsibility as member of CLT

#3 ***Capital Investment***
No additional capital invested – provide land but no other funds

In order to obtain desired outcomes the church accepts:

#4 ***Ownership***
Give up direct ownership of land which transfers to CLT - become voting member of CLT. Retain ownership of church building.

#5 ***Control***
Give up direct control which transfers to CLT.

#6 ***Revenue Generation***
No revenue - land is donated to the CLT

Map:

	LOW		HIGH
OWNERSHIP	○	●	○
CONTROL	○	●	○
RISK	○	○	●
RESPONSIBILITY	○	●	○
CAPITAL INVESTMENT	●	○	○
REVENUE GENERATION	N/A		

The Deal:

The church works with the neighborhood to create a community land trust and donates the excess property to the CLT. The church retains ownership of their building as a member of the CLT. The church building is available for church programming and as a community center within the CLT. The church holds 25% of the seats on the CLT board while the rest are held by homeowners and other community members in, and near, the CLT. All ongoing revenue and potential appreciation flow to the CLT and the homeowners. The CLT then partners with a developer on a fee for service basis for development assistance.

MYCELIUM NETWORK

This tool is one in a series of resources designed to help congregations figure out their future economic models. Join the RootedGood Mycelium Network at rootedgood.org for access to more tools and resources.

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