

LCEF

Real Estate Guidelines



*A resource to help you
with real estate activities*

PREFACE

This booklet is made available to you as a resource from Lutheran Church Extension Fund to assist you in real estate-related activities in support of the planting of new congregations.

Our goal is that this material will be helpful to you in your work as a mission planner. %

*The mission of the
Church Extension Fund
is to provide opportunity to make
funds and services
available in support
of the Great Commission
through The Lutheran Church—
Missouri Synod.*

LCEF GUIDING PRINCIPLES

- 1 LCEF is a ministry.
- 2 LCEF serves congregations and a host of other Synod-related organizations.
- 3 Investors are fellow Christians who support the ministry.
- 4 God has richly blessed LCEF through the ministry of volunteers.
- 5 LCEF is a partnership between investors and borrowing organizations.
- 6 LCEF actions are based on the question, "Will this decision make a difference and further the Great Commission?"

INTRODUCTION

The purpose of this publication is to provide a convenient reference to help congregations, circuits, districts and mission planners in real estate-related activities. The purchase or sale of improved or unimproved real estate is a decision that ordinarily involves substantial amounts of money. Lutheran Church Extension Fund is normally involved in the funding of such real estate purchases. At times it also becomes involved in the sale of developed or undeveloped church properties.

Changing social, political and demographic changes in the United States in the 1980s have had a dramatic effect on the timing of immediate use and advance site purchases. Those changes also affect the location of present and new church sites, and the economic implications that must be considered in both the acquisition and disposition of church-related real estate.

Making good decisions about where and how to build the church of the future will be influenced by trends in the real estate market and by social and demographic changes in our society. More government control of development has increased the cost of land. However, as a result, church planners and developers have a greater assurance that the land purchased can be used for the intended purpose.

Employers and people continue to move from the major cities to suburban or ex-urban areas. Cities with populations of 100,000 to 250,000 continue to grow rapidly. New communication technology will accelerate more and more population decentralization.

Church planners at every level of activity must be aware of these trends and must consider their effect as they

decide when and where to plant new congregations and when and where to relocate existing congregations. It is the hope of LCEF that this publication will assist in those decisions. %

DETERMINING THE NEED

Decisions that will eventually require the purchase of real estate ordinarily begin with the determination of a need. This need may take many forms and may require answers to many different questions. Examples of such questions are likely to include—but are not limited to—the following:

- What are the ministry needs of the community?
- What is being done to meet the need now? . . . by the LCMS? . . . by others?
- What is the best way to meet the need?
- Can an existing parish meet the need?
- Should an existing parish be relocated?
- Should a new parish be formed to meet the need?
- Do we have available resources . . . personnel and financial . . . to meet the need?

A ministry plan using demographic, market and financial feasibility studies of the service area should address and answer the previous questions. If it is determined that a ministry need does exist and there is good reason to believe that a ministry can be supported, a “go” decision should be made. At this point, and only at this point, should the process of selecting a site for the new ministry begin.

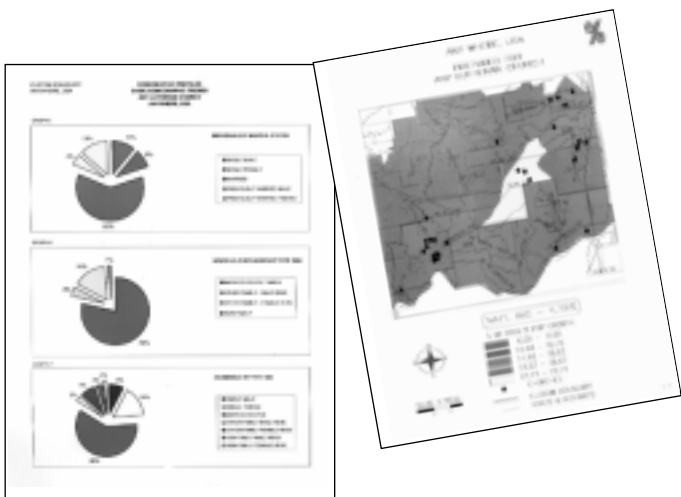
Let us address the three types of studies mentioned . . . and provide suggestions and sources that will help gather and analyze the information necessary to make correct decisions. %

DEMOGRAPHIC STUDIES

- A demographic study helps in three ways:
- To help plan staff requirements and ministry needs in a service area.
 - To provide statistical and demographic information with reference to the market area to be served by the proposed new church facility.
 - To help congregations better understand the people, culture and needs of their community.

Demographic studies describe the people who live in a given area and describe their lifestyles, ages, income levels and education. It gives a clear picture of the people to be served.

Projections of population growth during the construction period and beyond are an important part of any demographic or growth study and are an extremely important consideration in real estate planning.



The Equifax National Decision System (NDS), presently available through LCEF, can provide an almost instant in-depth demographic look at any area, in any part of the United States or Canada. We recommend you contact LCEF for more information on the different forms of research possible through this system.

Many church planners are familiar with the one-to-five mile radius study that is centered at a given geographical point. In addition, areas can be studied by ZIP code, city, county or other geographical and political entities.

The typical NDS study provides data in the following categories:

■ Population	■ Children	■ Age
■ Race	■ Sex	■ Marital Status
■ Income	■ Occupation	■ Property Values
■ Travel Time	■ Schools	■ Housing Units

These are only some of the categories available. Many other facets of a community can be examined by special order. Of utmost importance to future church planning is that demographic maps can identify and predict the extent and type of population growth likely to occur in given areas of a community or metropolitan area. %

MARKET INFORMATION

A complete growth or demographic study will enable church planners to predict with a considerable degree of accuracy what type of church planning will be required to attract the residents of a given area. In addition, the potential membership can be predicted within reasonable limits based on the “market share” of other Lutheran churches with the same demographics in nearby metropolitan areas or other communities with similar demographic profiles.

The services of the LCEF Mortgage Loan Department are also available to assist in financial studies that can help predict whether the proposed new church facility is financially feasible.

Before becoming involved in the purchase of real estate or enlisting help from a professional real estate broker, a district, circuit or congregation must make a “go” or “no-go” decision about planting a church in the identified service area. A ministry plan that includes demographic and financial data can help make that decision. If the decision is “go,” demographics can be used to determine and evaluate locations for ministry. %



Ken Greene

A GUIDE TO CHURCH SITE SELECTION

When a ministry in a given area is a viable option, it is time to search for an adequate church site for either immediate or future use. Too often, this search for the proper location can become flawed by not following good site selection guidelines and procedures. Decisions are often made without full regard of potential problems that result from using an unprofessional approach.

Experience gained in years of real estate services involving church sites has resulted in a series of questions that should be used to help focus on key areas in the site selection process. If these questions are applied to each site offered for consideration, the site purchased will almost surely be an excellent church location. If it is decided not to use the site for church purposes, most often the site can be sold at a price that will recover the purchase price as well as the holding costs.

We have termed these 11 questions as “Key Factors in Selecting a Successful Church Site.” Each of the following questions is important and each must be asked and answered.

1. Can the user afford to purchase the site?
2. Are all utilities available and adequate for the intended use?
3. Will there be unusual “hard” or “soft” development costs?

11 QUESTIONS Key Factors

4. Is the site being considered for acquisition large enough for long-term growth and development?
5. Does the site have good accessibility?
6. Are there environmental problems that may affect development of the site?
7. Are there physical characteristics of the land that may make its use difficult?
8. Is the site adjacent to any inhibiting barriers that may affect future development?
9. Will the purchase of the site meet the investment test?
10. Will the site “hedge” your position in the area of your choice?
11. Is there a political/community environment or other restriction that might adversely affect your use of the site?

These 11 questions were developed by professionals active in the site selection process on the district and national level, LCEF staff and by real estate consultants. The format of establishing norms or criteria for site purchases should be more effective than a list of do's or don'ts.

Answering these questions will not be easy. It will be necessary to engage professional help from different specialties such as engineering, real estate, architecture and construction to help you obtain complete answers. However, dollars and time spent in preliminary research will be repaid by the recognition and elimination of potential problems. Dollars spent at this stage of the site purchase process will best serve the congregation and the total church.

WE NOW LOOK AT EACH QUESTION

Can the user afford to purchase the site?

On the surface, the answer to this question appears to be easy. It is not!

Problems often develop when the cost of the finished product—the completed church facility—is not considered. Purchasing the vacant land is only the first step in the process.

A fundamental concept of land values is based on the assumption that land in itself has no value. The value comes from the use of the land. If it is to be used for housing, it has a value commensurate with that use. If the land is to be used for farming, it has a value commensurate with that use. Thus, the use determines value and use determines the improvements that must be added to the land.

It is the improvements that attract people to a church location. The size of the improvements must therefore be carefully calculated based on the projected amount members can and will contribute.

There is a general rule in real estate development that says the ratio of improvement cost to land costs should be at a minimum of three to one. The higher this ratio in proportion to expected revenue, the better. *Example:* If the land cost is \$100,000, the income-producing improvements on that land will cost at least \$300,000 for a total investment of \$400,000.

If the cost of the land is out of proportion to the size

and cost of the improvements, the burden of the combined cost can be too great for the improvements to support.

To address this concern, the congregation must have the resources available to purchase the land and to make the necessary improvements. If the source of the funds is a loan, the congregation must have the ability to pay back the loan from revenues generated at the location. Some of the following questions help identify problems that can affect the cost of making the necessary improvements.



Are all utilities available and adequate for your intended use?

Purchasers of vacant real estate, as well as brokers, developers and others involved in the real estate process, are often misled in answering this question.

If there is existing development at or near a proposed site, it is easy to assume that the ordinary utility services needed to support the intended use of the site are present and available. Be careful!

The presence of such outward signs does not necessarily ensure either the availability or the adequacy of the utility services that will be required to serve the site for your intended use. Be aware that a church facility will be required to meet standards of utility services that are special to its particular use. Special conditions often exist that require considerable expense and high fees to tap into these services.

To answer this question favorably, each utility provider that might be involved must provide a written commitment to provide service; written assurance that the needed services are available and adequate; and a written estimate of the anticipated costs that will be involved in providing each utility service.



Will there be unusual “hard” or “soft” development costs?

Hard costs include the actual construction work as well as the site preparation. Hard costs include expenses for grading the site, curb and gutter work, paving, parking and landscaping. In most cases, hard cost improvements are recommended by the project architect to better serve the purpose for which the building is being constructed. In addition, there will likely be requirements by local regulatory agencies. It is not unusual for these requirements to be numerous and expensive.

Soft costs are engineering costs, permits, consultant fees, dedication requirements, zoning and covenant requirements, and legal costs. Another term is paper costs. While that term sounds relatively simple, such costs in some areas of the country can exceed 25-30 percent of the total cost of the entire building project.

The services of a reliable engineering, architectural or consulting company is necessary to adequately determine these costs. While these costs are separate from the actual building improvements, they form a considerable portion of the eventual cost of the total project. Determination of all project costs should not be attempted without the expertise of design and construction professionals familiar with local considerations. These costs must be applied to a specific site.



Is the site large enough for long-term growth and development?

Historically, the traditional church site has consisted of three to five acres, but in recent years this has been expanded to range from five to seven acres. In certain situations “surplus” land was sold in the early history of

the newly formed congregation, resulting in limitations in terms of future growth and ministry opportunities.

The question— “How much land will be required?” — is not easy to answer. The answer will be influenced by a number of factors with reference to the overall ministry plan and growth potential. For example, does the congregation want to have a parochial school or preschool as part of its campus in the future, in keeping with its long-term



Judith McGuire

vision for ministry growth? Future needs to fulfill the existing or new congregation's long-term ministry goals must be considered at the time the size of the site is determined.



Does the site have good accessibility?

The word “accessibility” is defined with many different meanings or connotations.

One way the word is used in the site selection process is to mean it is easy to get to the site from any point in the general area. Problems like poor freeway access or exit, numerous stoplights or stop signs, railroad crossings and other traffic annoyances limit accessibility and reduce the value of the site.

Once at the actual location, accessibility refers to the site. Are the lane turns conducive to an orderly and easy traffic flow from all directions? Will traffic from a certain direction cause problems?

Accessibility means something else once on the site. Will there be ample space for internal traffic on the site once the improvements have been completed? Will egress from the site create problems for those trying to enter the property at the same time?



Included in our concept of accessibility is visibility. Visibility ordinarily makes access easier. It provides an excellent method of recognition within a community. Thus a corner location at the juncture of two streets will lend additional visibility to a site.

Q6 Are there environmental problems that may affect development of the site?

It would be very unusual if the answer to this question is “No, there are no environmental problems.”

The real concern is whether there is a possibility . . . either now or in the future . . . that some type of environmental concern could affect the use of the site for church purposes.

The wide variety of these concerns and the possible costs involved to deal with them make the formulation of generally applicable rules impossible.

However, some cautions and observations are in order.

- Environmental concerns range from legitimate to debatable.
- No matter the merit of the concern, any environmental concern can be costly.

- Many environmental concerns are peculiar to a local area. In most cases these should be well known.

Environmental concerns are real. The costs in some cases can be extremely high. It is vital that early in the site selection process, professional advice be obtained and a plan and cost analysis for dealing with any potential environmental problem be formulated.

Are there physical characteristics of the land that may make its use difficult or expensive?

Is the terrain conducive to its use as a church site? Is the conformity of the land suitable for church development?

A 3-to-1 ratio of depth to frontage on an existing thoroughfare is a good guideline. Extremes in one dimension of a property in relation to another is almost always a danger signal. While nearly any configuration in a site can be developed, the problems and expense associated with any unnatural configuration can be substantial.

Potential soil or drainage problems need to be explored. Clearing trees or underbrush can be expensive, and in some cases cause environmental problems. Grading or fill work necessitated by the contour of the property can be costly.

Is the site adjacent to any inhibiting barriers that may affect future development?

There is no parcel of real estate that stands alone. The use, the value, the eventual development of any parcel of land is in part affected by other properties in the near vicinity.

Some of these surrounding properties may already be developed with certain types of improvements or uses, while the use and development of other properties in the area may not have been determined. Often large parcels of land have been designated by local mandate, topography, physical features, past use, or a variety of socioeconomic conditions for purposes that will inhibit any residential, commercial or industrial use of other real estate in the general area.

Some examples:

- Cattle feed lots
- Designated open space
- Landfills
- Regional parks
- Railroad lines

Not all these barriers to future development are necessarily bad in themselves, but each of them or any combination will have an effect on development of a site, as well as on the development of any properties in the area.

Q Will the purchase of the site meet the investment test?

While it is true that the site is being purchased for church development, it is well to remember that economic conditions may change, the scope of the ministry may change, and well-conceived plans and expectations for the new church may change.



If this occurs, the site may have to be sold. It is important that such a possibility be considered at the time of purchase and not at the time of a necessary sale.

Ask: Will the property (assuming borrowed dollars are being used) appreciate at a rate at least equal to the interest rate on the funds borrowed? If the answer is no, perhaps the purchase should be abandoned.

The answer to this question is, of course, not easy. There are many factors that need to be considered.

In most cases, the answer to the question should not be supplied by the owner of the property considered for purchase, by any agent involved on the owner's behalf, or by any agent involved on your behalf if the agent's compensation is conditioned on your purchase of the site.



Will purchase of the site “hedge” your position in the area of your choice?

“Hedge” used in this context means to assure that a new church location is in the area of your choice.

At times, it is not possible to obtain the *exact* site desired in an area . . . at least, not at the time of purchase. Under certain circumstances, the purchase of an alternative site to “hedge” your position in the area could be an alternative. This is very seldom necessary and should be considered only if the price for vacant land in the identified area is accelerating so rapidly that a site purchase at a later time might become prohibitive.

Such a site purchase could be a viable alternative if you are not able later to obtain the exact site of your choice. In today's real estate economy, this type of

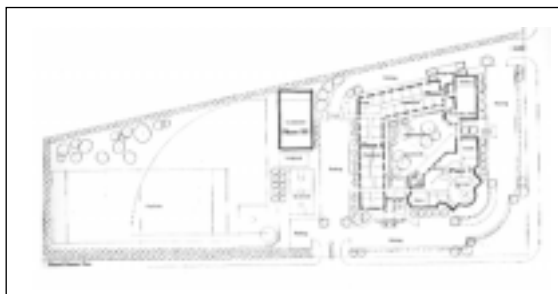
circumstance will rarely exist. The use of this type of strategy will rarely be justified, and should be used with extreme care and expert guidance.



Is there a political/community environment or other restriction that might adversely affect your ultimate use of the site?

This question is not for a real estate advisor or other professional specialist. However, it is a question that must be considered before purchasing a site for church purposes.

There are recorded cases where the use of a site in a given area conflicted with local political agendas or with community perceptions and attitudes. Despite proper zoning and compliance with all local written regulations, the difficulty experienced can negate the best efforts to locate a church complex in such an area or community. While such conditions are not common, local attitudes can and do create conditions which will make the use of a site an impossibility. It is important therefore, that any analysis of an area before a site purchase include an assessment of both political and community attitudes.



SUMMARY

The process of a location for a “new start” or a church relocation begins with:

- Determining your current and future ministry “vision.”
- Determining the need. A “go” or “no go” decision to meet the expected need is made as a result of demographic, market and financial feasibility studies of the intended service area.
- Determining the best real estate site to meet the expected need is best done by applying the 11-question test to each proposed real estate location.

Using this step-by-step approach will result in considerable time savings and avoid undue delays as you proceed with your planning.



The following chart provides an example of a reasonable timetable for the go-no go decision process that must be undertaken by a congregation considering expansion of existing facilities, or construction of a new campus. We have found the go or no go decision can, for the most part, be made in 12 months.

DECISION TIME TABLE

STEPS	MONTHS											
	3	6	9	12	15	18	21	24	27	30	33	36
■ Develop Ministry Plan												
■ Demographic/Market Studies												
■ Financial Feasibility Studies												
■ Site Selection Process												
• Review of Options												
• Implementation												
■ Architectural Services												
■ Implementation of Plans												➔

If you should have further questions
or desire additional information,
please contact your district office.



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