The Valuation of Houses of Worship During Prolonged Periods of High Unemployment

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INTRODUCTION

WHILE RELIGIOUS SERVICE PROPERTIES ARE NOT BUILT OR operated for a profit, they do constitute a large part of the real estate market. Some sources report there to be more than 94,000 religious service properties in the United States,[1] some of which exceed one-half million square feet.[2] Religious service properties are like most other real estate assets in that their underlying demand typically stems either from growth or shifts in population or from changes in user requirements. Also similar to most other types of real estate, they are heavily influenced by prolonged periods of significant unemployment. They are, however, distinctive in many ways, and the stress brought to the market for religious service properties by prolonged high unemployment merits attention by anyone who buys, sells or estimates the value of this unique property type. An understanding of these issues is also essential to anyone who counsels others on these activities.

WHY RELIGIOUS SERVICE PROPERTIES ARE BOUGHT AND SOLD

The first step in understanding how much someone would pay for a religious service property, economic conditions aside, is to understand why these properties are bought and sold.

Experts on the valuation of this specialized property type traditionally had contended that trades of churches and other religious service properties were rare. Perhaps it is the greater supply of information that technology has brought us, but it is now widely accepted that these properties do sell, and often. As of February 2, 2013, CoStar Group reported in its database alone 2,634 religious facilities for sale throughout the country, with asking prices as high as $49 million.

As with most other property types, particularly those that do not generate income, the reasons they are bought and sold vary.

- **Moving Up:** Historically, religious service properties were often sold as congregations grew and required more space. The seller would vacate the property in favor of something larger and sell to a smaller congregation that was also expanding, much in the way that families have traditionally begun with starter homes and "traded up."
- **Moving Out:** Unlike the housing market, though, another reason that houses of worship often sell their properties is the result of a scandal that causes a sudden drop in membership and makes meeting occupancy costs unsustainable. There are numerous examples of pastors and other key leaders found to have engaged in inappropriate or even illegal activity, and the congregation's financial resources often plummet in a way that no one had envisioned.
- **Being Asked to Leave**: Not long ago the real estate owned (REO) department at most banks was a small room that was hard to find and seldom talked about.

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That lenders sometimes took back properties was not something they liked discussed, and foreclosing on a religious service property was something on the order of public relations suicide. Those days are gone, and are unlikely to return soon. In many markets, lenders are the most common profile of seller. And in this regard, houses of worship are no longer considered sacred. In the Atlanta-Sandy Springs-Marietta, Georgia metropolitan area, for example, CoStar Group described 26 percent (six out of the 23) religious service property transactions that closed in 2012 as "REO sales," with a more in-depth analysis of this data suggesting that an even greater number could have involved lender-sellers. By comparison, CoStar Group described just 17 percent (491 out of the 2,937) of all Atlanta MSA non-residential real estate transactions in 2012 as an "REO sale."

PROPERTY ANALYSIS

Functional utility is critical, and there are several factors unique to this type of property. The most common denominations in most U.S. markets include Catholic, Protestant, Baptist, Methodist, Mormon and Judaism. From a real property perspective, there can be denomination-specific distinctions, although there is significant overlap in needs and preferences. A sampling of relevant issues follows:

- **Size-to-Seating Ratio**: The sanctuary should be an appropriate size for the property as a whole. A ratio of one square foot of sanctuary for every 40–60 square feet of total building area is considered typical. Within this range, a higher ratio of sanctuary space is typically considered desirable, as this is the costliest area to construct; however, a sanctuary that is too large to fill typically does not command a premium.
- **Land-to-Building Ratio**: Excess or surplus land usually commands a premium so that congregations have the potential to expand (as opposed to relocate). Moreover, large sites typically can accommodate more parking, a major concern for many congregations.
- **Layout**: A religious facility often will include classrooms and a fellowship hall. For larger properties, the presence or lack of a gymnasium can be important, as integrating non-religious uses into the property has become one way that houses of worship attempt to deepen ties with parishioners. Similarly, day care centers also have become important components of many religious service properties.
- **Floor Plan/Design**: Religious facility floor plans often reflect the differences in worship. Architecture of Roman Catholic churches stresses the altar as the focus of worship. Protestant churches emphasize the congregation and are built so that everyone can see the minister. Baptist churches typically include a baptismal with a viewing panel and adjoining changing rooms.
- **Equipment**: The sale of a religious facility will typically include the organ, pews and kitchen equipment.
- **Past Uses**: Some denominations will not purchase or use a facility that has previously been used by particular groups, because of beliefs and/or ceremonies that they regard as having defiled a property.

POSSIBLE ADAPTIVE RE-USE

Given the special-use nature of religious service properties, lenders often are interested in knowing the possible alternative uses for such a property. The answer is often "few," and sometimes "none," but it depends on the property and its market. One alternative use that often works well is a school, which shares many of the physical characteristics and design features of typical religious service properties. Given that suburban houses of worship often are developed on large sites, complete redevelopment of the improvements also may be an option. Many apartment markets thrive during periods of high unemployment, and many houses of worship are on residentially zoned sites, so redevelopment for apartment use is sometimes worth considering. Well-located urban religious service properties in areas where land is scarce also can be prime redevelopment candidates even though their sites typically are much smaller than those found in suburban areas.

MARKET RESEARCH AND SPECIAL-USE PROPERTIES

A fundamental market analysis is one that forecasts demand based on segmentation of broad demographic and economic data to reflect a given submarket.[3] This type of analysis is well-suited for properties built on a speculative basis, and can guide developers in their decisions on when to deliver more product. When retail sales increase, retail developers know more shopping centers are needed, and when job growth ramps up, office developers know more offices are needed. Special use properties rarely are built on a speculative basis, though, and in the case of religious service properties, they are usually constructed in response to the need of a specific user as opposed to a broad indication of a market supply/demand imbalance. It is, however, still necessary to gauge demand in some way in order to anticipate what market response could be expected if a given property were to be offered for sale.

In the absence of reliable quantitative techniques to measure demand, a thorough qualitative analysis is needed. The best source of this information is usually attained by conducting a series of firsthand interviews with those experts who have the most knowledge to share about a given market. While relying on anecdotal evidence of market trends can be unsettling, when opinions are gathered from a variety of highly qualified sources, and those opinions prove to be consistent not only with each other but also with whatever factual market data exists, it can form a solid foundation for a credible estimate of value.

- **Step 1 – Scope of information needed**: The best first step is usually to determine, at least in a general sense, how much market knowledge is needed for the task at hand. For example, if valuing a 5,000-square-foot religious service property in an area with plenty of recent sales of similar properties, some of the steps prescribed below may not be necessary. However, if valuing a 500,000-square-foot religious service property that is not truly similar to anything recently sold anywhere in the country, the steps prescribed below may not be enough.
- **Step 2 – Questions that must be answered**: The next step is to identify and list the types of questions that must be answered to form an educated opinion on what would happen if the property in question were exposed to the market. In general, the best questions a counselor developing an opinion of value can ask are those that would be asked by (or in the minds of) prospective purchasers. The following are some questions that may be relevant:
    - Are there currently buyers in this market actively seeking property?
    - What would be the profile of the target/most likely buyer for a property such as the one being analyzed?
    - Is there financing available for such a purchase?
    - How deep is the pool of potential purchasers that have the ability to execute a transaction?
    - How would a buyer go about pricing such an asset?
    - What are the economic trends in this particular neighborhood, and where is it in the real estate cycle?
    - What are the other relevant marketability issues?
- **Step 3 – Who has the answers?** Once a list of questions is developed, a list of experts qualified to render meaningful answers must be identified. Most major metropolitan areas have brokers who specialize mostly or exclusively in the marketing of religious service properties; these people will usually be the best source of information. There also are brokers who specialize in the marketing of these properties on a national basis, and every local market area has brokers who have sold a broad variety of property types including houses of worship. Any broker who has sold a house of worship may have valuable thoughts to offer, but take care to distinguish opinions of the most qualified sources from the others. In determining whose opinions are the ones to take most seriously, keep in mind:

- How long have they been involved in the marketing of religious service properties?
- Is the bulk of their experience in the market area of the property being valued?
- Have they been involved in many transactions of properties similar in size, appeal and general category of pricing?
- Do they have any professional designations, or any other generally recognized credential that distinguishes them as experts?

Particularly during periods of economic uncertainty, one will find that brokers active in the marketing of houses of worship in lower income areas may have little insight into marketing properties in upper income areas (and vice versa).

When researching the availability of financing, be sure to speak with lenders who have actually made recent loans on this type of property, and perhaps even with those who specialize in this area. Other experts who may be worth speaking with are appraisers with significant knowledge of this market, site selectors with experience in this niche, and church congregants who have personally been involved in the purchase or sale of such a property.

Firsthand research is typically best as it is fresh, market-specific and, when done properly, most reliable. Even the best firsthand research, though, can be supplemented by timely publications and other information sources. For example, according to the National Council of Churches' 2012 *Yearbook of American & Canadian Churches*, nearly $29 billion was contributed in the most recent year by nearly 45 million church members, which is down $1.2 billion from figures reported in the previous year. Rev. Dr. Eileen Lindner, the book's editor, reported that the decline "took place in the context of ongoing high unemployment and a protracted economic downturn.[4] As will be evident further on in this article, prices for religious properties have dropped sharply; knowing that contributions are down $1.2 billion can be very helpful in understanding this trend.

ALL REAL ESTATE IS MARKET-SPECIFIC—EVEN CHURCHES

Markets can be segmented in a number of different ways: What drives the Seattle market may not be relevant in Miami; trends in low-income areas may not apply to high-income areas; and challenges specific to older properties may actually benefit the market for newer properties. While unemployment and other adverse economic influences affect virtually all properties within the afflicted areas, they do not affect them in the same way or to the same extent. For example, only a small minority of "megachurches"[5] report financial struggles. Referring to houses of worship that are very large, *A New Decade of Megachurches - 2011 Profile of Large Attendance Churches in the United States* reports: "Only 6 percent say [their] church's financial health is in some or serious difficulty."[6] This would seem to suggest that the impact of a weak economy has had less of an effect on larger houses of worship, although they are far from immune. This study goes on to note: "However, half say they felt the effects of the economic crisis adversely and presently 5 percent fewer churches report their financial health as excellent compared to 5 years ago. … Nearly all the megachurch[es] felt the recession as a result of an increase in individual needs. This was evident in the program emphasis on job training and financial counseling. Likewise requests for help increased to differing degrees for nearly all megachurches in terms of cash assistance, counseling, emergency housing and unemployment support of the membership."

Whether these broad observations translate to a specific geographic market, and if so to what extent, will depend on many factors. That macroeconomic influences have an uneven impact on different markets, and even on different segments of a given market, underscores the importance of the local, firsthand, market-specific research described previously that can be tailored to answer these (and other) questions.

THE IMPACT OF DONATIONS ON THE PURCHASE PRICE DECISION

Some brokers who specialize in the marketing of houses of worship report that pricing is a function of what has been described as a "reverse income approach" or "modified income approach." Essentially an exercise to calculate how much debt a congregation can service, this technique has limited applicability for a seller seeking to learn market pricing. The amount of donations a congregation collects, though, has a direct impact on what price it, as a buyer, can pay; therefore, general tithing trends have a strong influence on demand, pricing and ultimately market value. One broker, citing pastors with whom he had recently spoken, reported that as a result of the spike in unemployment that accompanied the recession "attendance is down 20 percent and tithing is down 57 percent" from pre-recession levels. This information is both time-sensitive and market-specific and would be inappropriate for use as a broad-based industry metric; it is, however, an example of the type of market information that can be uncovered through good research. While neither the declines in attendance nor tithing are documented, and the preciseness of both is suspect, when such information is consistent with other anecdotal reports and/or factual market trends, it is worthy of consideration. More specific to the question of how donations affect the purchase price decision, it would seem self-evident that a buyer of any given product can no longer afford to pay the same price after some event has cut its income stream by 57 percent (or whatever other large number market participants are speculating in a particular market suffering from a weak economy).

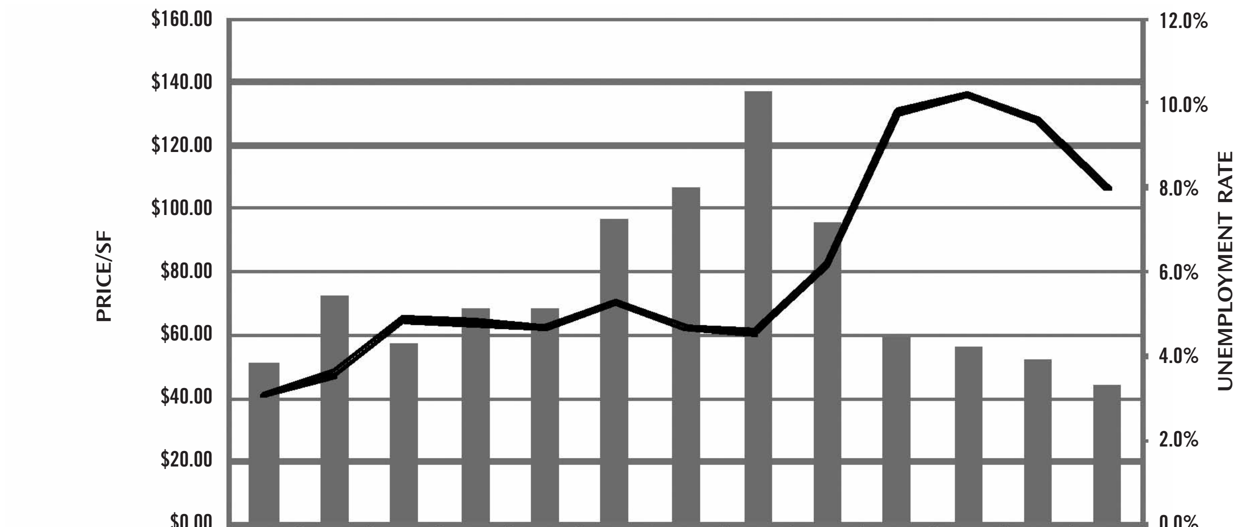
UNEMPLOYMENT TRENDS VS. TRENDS IN SALES OF RELIGIOUS SERVICE PROPERTIES

As discussed previously, buyers of church properties are often motivated by the desire to "move up" to a larger property. Since houses of worship rely on donations to fund large purchases, both through their equity contribution and ability to qualify for financing, the number of unemployed members of the congregation has an enormous impact on the ability to buy a larger property. If the congregation's financial situation is dire enough, it could even compromise the church's ability to remain in the current property. Trends in sale prices during prolonged periods of high unemployment can be seen in Figure 1.

There is a clear correlation between unemployment trends and average price per square foot, as is evidenced beginning in 2008. Although the drop in prices is attributable to economic problems greater in scope than merely unemployment, the previously described link between what congregants can donate and what buyers in this market can afford is inescapable; similarly, when congregants are unable to tithe, it also increases the level of motivation of sellers in this market as houses of worship attempt to deal with deteriorating budgets. As is

Figure 1

Religious Service Properties - Price/SF vs. Unemployment Rate



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average Price Per SF	$51.53	$72.69	$57.67	$68.80	$69.05	$96.60	$106.87	$137.06	$95.37	$59.78	$56.58	$52.12	$43.98
Unemployment Rate	3.1%	3.6%	4.9%	4.8%	4.7%	5.3%	4.7%	4.6%	6.2%	9.8%	10.2%	9.6%	8.0%

Source: Georgia Labor Market Explorer, citing data from the Georgia Department of Labor, and CoStar Group
Geographic Area: Atlanta-Sandy Springs-Marietta (Georgia) Metro Area.
Note: Sale data excludes multiple transactions of the same property on the same day and also multi-property transactions.

evident from Figure 1, though, the price trend does not vary directly with changes in unemployment. What is also evident is that periods of extended (or chronic) unemployment have an aggregating downward influence on prices.

Many religious groups have been caught in a downward spiral. The following are some observations from data presented in Figure 1:

- **2000–2007**: During this period of generally low unemployment, prices rise precipitously; an analysis of the transactions shown in Figure 1 indicate that the average price per square foot in in 2007 is 166 percent higher than in 2000, and the compounded annual gain during this period is 15 percent.
- **2008**: As a large number of congregants lose their jobs, or begin to fear losing their jobs, tithing drops and church finances become less stable. The average price per square foot in the sample shown in Figure 1 drops 30 percent between 2007 and 2008, and brokers in this market cite unemployment as the main reason.
- **2009**: Unemployment eases, but not by enough to relieve the financial distress and fear that accompanied the financial crisis. Further, while the unemployment rate drops slightly, the length of time for those out of work grows as the economic downturn continues. The average price per square foot in this sample (see Figure 1) drops another 37 percent from the previous year, and a total of 56 percent from 2007. The main reason is still high unemployment, but is now better described as chronic high unemployment. That many of the financially weakest congregations lost their properties to foreclosure in late 2008 and throughout 2009 aggravates the market weakness and contributes to the descent in pricing.
- **2010–2011**: Unemployment continues to ease, but again, not by enough to trigger price recovery; average prices continue to soften.
- **2012**: Following four years of high unemployment, even religious groups that were once financially sound are now under pressure. Foreclosures continue, and sellers continue to be highly motivated with few qualified buyers available. The average price per square foot in this sample (see Figure 1) is now 68 percent lower than the peak of 2007.
- **Sanity Check**: A good analyst constantly checks and re-checks his or her working premise. As noted

previously, a local broker specializing in this market reported that tithing has fallen by 57 percent. The accuracy of this statement could not be verified—and it is unclear whether the accuracy of such a statement is even verifiable. While unsourced and tenuous statistics should make a conscientious analyst nervous, opinions that seem to dovetail with what factual data does exist should serve as a source of comfort. If the average price per square foot in a given market has fallen by 68 percent, doesn't it seem plausible that tithing is down by some similarly large number? Even if neither figure is precisely correct, the story behind what is driving this market and in what direction seems clear.

- **Outlook**: Until there is greater employment stability, it appears unlikely that the negative pricing trends will reverse. Lenders are becoming an increasingly large share of sellers in this market, and are demonstrating a willingness to use aggressive pricing to dispose of assets. As a corollary to this observation, the number of lender-owned properties has far surpassed the point of critical mass that requires traditional sellers to be price-competitive with these lender-sellers.

'WHAT CAN YOU SELL IT FOR?' AND THE COST APPROACH

The cost approach is based on the understanding that market participants relate value to cost.[7] A cost approach is developed using the following steps:

A. Estimate the cost of new improvements.
B. Deduct physical depreciation.
C. Deduct all forms of non-physical obsolescence.
D. Add the value of the underlying land.

The cost approach is highly relevant when supply and demand are generally in balance. However, when demand exceeds supply, the depreciated cost tends to be less than what one could sell a property for; conversely, when demand is less than supply, the depreciated cost is usually greater than a property's value. Prolonged high unemployment degrades the relationship between cost and value because the debt a congregation can service is severely compromised when congregants are out of work, causing value to fall. By comparison, the impact unemployment has on construction costs is not nearly as direct or profound.

Given that chronic high unemployment affects what properties actually can be sold for to an extent far greater than it affects replacement cost, the key using the cost approach to develop a credible estimate of value is to find a way to measure the impact of adverse economic conditions on achievable sale prices; this is often the essence of step C ("deduct all forms of non-physical obsolescence").

Property values suffering a loss due to outside or external influences is known as external obsolescence;[8] when that external influence is a weak economy, it is known as economic obsolescence. The impact of high unemployment should be reflected in each transaction of a similar property that occurred during similar economic conditions. Therefore, the impact of high unemployment on property values can be extracted from recent sales. The impact will not be identical from transaction-to-transaction, and unemployment is just one of the factors that influence sale price; however, analyzing multiple examples can yield highly meaningful, if not exactly precise, results.

In general terms, the process of extracting the impact of adverse economic influences from comparable sales can be described as follows:

A. A recent comparable is selected, and its sale price is identified.
B. The value of the property's underlying land is deducted, and the residual is the contributory value of the improvements.
C. The comparable's physical depreciation is estimated, usually by dividing its effective age by its economic life.
D. The replacement cost of the building is estimated;
E. By deducting physical depreciation from replacement cost, the depreciated cost of the building improvements is estimated (D – C = E).
F. A similar process is done to reflect site improvements. (Alternatively, a simpler method would be to combine building and site improvements, although segregating these components is recommended for properties with large paved parking areas.)
G. The sum of the replacement cost of the building less physical depreciation and the cost of the site improvements less physical depreciation yields to the total replacement cost of the improvements less physical depreciation.
H. The value of the property's underlying land is added to the depreciated cost of improvements, and the result is an estimate of what the property would have sold for absent obsolescence.
I. The difference between the actual sale price and what the property would have sold for absent obsolescence (step H) is the amount of obsolescence expressed as a dollar amount.

J. Dividing the amount of obsolescence expressed as a dollar amount by the replacement cost less physical depreciation yields an estimate of obsolescence expressed as a ratio of depreciated cost (I ÷ G = J).
K. By applying this process to multiple comparables, multiple indications of obsolescence will result; these indications can then be analyzed and reconciled.

More specifically, Figure 2 provides a demonstration of how this technique can be applied.

Some words of caution are needed regarding this technique. Perhaps the most obvious point of trepidation is that this process is very subjective. A subjective estimate is better than a guess, but it is important to recognize the limitations of any technique. At the bottom of Figure 2 is a warning that may be appropriate if one is preparing a report of valuation that will be looked at by others. Numbers have a way of coming across as very factual, so it is important not to mislead others into thinking that a numerical valuation technique is rooted in science. Also relevant is that this technique captures all non-physical depreciation, whether wanted or not, so the deductions do not simply reflect economic obsolescence—they reflect any functional obsolescence as well. Ideally, the comparables analyzed will not have a significant amount of functional obsolescence, so this will not be material. In the absence of such comparables, one must be sure to recognize that the amount of economic obsolescence is only a portion of the total obsolescence reflected.

Given the amount of data available to extract obsolescence, and its reliability, it may be advisable to attempt to confirm or refute the results of this exercise using whatever additional indications can be found. The following excerpt was taken from a recent appraisal of a religious service property whose market was severely affected by prolonged unemployment: "Multiple brokers personally involved in transactions in this market expressed the opinion that values had declined by at least 50 percent from pre-recession levels." A few words of caution are needed to make use of this type of information.

- Off-the-cuff statistics by brokers, or anyone else, are typically more anecdotal than fact-based, and should be viewed as such.
- The impact by which values have declined and the amount of economic obsolescence are related concepts—but they are not exactly the same. The biggest difference in this example is that the 50 percent drop in values reported by brokers would reflect both land and improvements, whereas economic obsolescence relates specifically to improvements (as the land is valued separately).

Anecdotal evidence such as this would be less than ideal as the basis of an analysis, but may be appropriate to help support the conclusions of a quantitative analysis. Moreover, such observations may even capture elements of a dynamic market that cannot be seen by looking at numbers. Further, if multiple sources of anecdotal evidence point in the same general direction, this data as a whole is still imperfect—but is worth contemplating. In short, if multiple brokers with significant experience in a market say values had declined by at least 50 percent from pre-recession levels, the declaration does not express the amount of economic obsolescence that would be attributable to the improvements of any given property; it does, however, suggest that the number would be fairly large.

THE SALES COMPARISON APPROACH IN A TURBULENT MARKET

The sales comparison approach involves making comparisons between the property being valued and those that have sold or are listed for sale, and is most useful when a number of similar properties have recently sold or are currently listed for sale in the market area being studied.[9]

The first step is to gather the data necessary to develop a credible analysis. Current listings are very useful in markets where fundamentals are shifting, and are an excellent supplement to closed transactions. Sales and listings of similar properties used for valuation purposes are often called comparables. Ideally, the perfect data set would include very recent transactions and listings of very similar properties in the immediate market area, with each comparable being a plausible alternative to a hypothetical purchaser of the property being valued. Realistically, the data selected will be heavily influenced by what data is available; that is true for the valuation of any property, but is a particularly salient point for special use properties. For properties that are very large or otherwise atypical for their market area, it is sometimes appropriate and necessary to expand the search for comparables to a regional or even national basis. It also may be necessary to become flexible in other search parameters as well, including analyzing dated transactions that do not fully reflect current market conditions.

Once an appropriate data set has been found, the next step is to make adjustments to the prices of the

Figure 2

Economic Obsolescence Market Extractions

	Comparable A	Comparable B	Comparable C
Sale Price	$5,850,000	$4,900,000	$3,755,000
Sale Date	May, 2012	December, 2012	September, 2012
Land Area in AC	17.02	19.42	8.24
Building Size in SF	45,000	40,000	38,700
Year Built	2004 and 2006	1991, New Roof 2008	2002
Effective Age at Sale (in Years)	7	15	10
Economic Life of Building	50	50	50
Depreciation Factor - Building	14.0%	30.0%	20.0%
Depreciation Factor - Site Improvements	25.0%	50.0%	50.0%
Building Cost New/SF	$200.00	$200.00	$170.00
Building Cost New	$9,000,000	$8,000,000	$6,579,000
Site Improvement Cost/AC	$100,000	$100,000	$125,000
Site Improvement Cost New	$1,702,000	$1,942,000	$1,030,000
Total Cost New:	$10,702,000	$9,942,000	$7,609,000
Depreciation - Building	($1,260,000)	($2,400,000)	($1,315,800)
Depreciation - Site Improvements	($425,500)	($971,000)	($515,000)
Total Physical Depreciation	-$1,685,500	-$3,371,000	-$1,830,800
Physically Depreciated Cost	$9,016,500	$6,571,000	$5,778,200
Land Value per AC	$90,000	$65,000	$90,000
Land Value	$1,531,800	$1,262,300	$741,600
Physically Depreciated Cost + Land	$10,548,300	$7,833,300	$6,519,800
Less Sale Price	$5,850,000	$4,900,000	$3,755,000
Equals Economic Obsolescence	$4,698,300	$2,933,300	$2,764,800
Economic Obsolescence as a % of Depreciated Cost	**52%**	**45%**	**48%**

The reader should be aware that while there are many subjective variables in such an exercise, its intent is to show a general indication of any obsolescence that may exist. We have tested this exercise, and found that our stated conclusion of substantial obsolescence would still be relevant even if minor changes were made to some or perhaps even several of the variables.

Source: Greystone Valuation Services Database comparables to reflect significant differences between them and the property being valued. Once the price of a comparable has been adjusted to reflect these differences, the adjusted sale price becomes an indication of value for the property being analyzed.

Following are some thoughts that may be useful in making adjustments to the comparables:

- Assuming some of the comparables are current listings, remember that asking prices usually do not reflect an amount that a buyer has agreed to pay, and they are typically higher than those that result from a negotiation. In evaluating how large an adjustment is appropriate, consider available information regarding the listing period and the market's reaction to the asking price. For example, if a religious service property has been on the market for a year with no offers and little interest from potential buyers, it seems clear that the price is not sufficiently competitive to achieve a sale; in this case, the appropriate adjustment would have to be large enough to reflect that this level of pricing has essentially been rejected by the market. However, what if the asking price had been lowered at some point during the year it was listed, and is now drawing considerable interest from qualified buyers? In that scenario, it would seem that a far more modest adjustment would be appropriate. Another common situation is to find that a listing has been available for several years. If that is the case, and there have been no price reductions, in a declining market the appropriate adjustment may be extraordinarily large to reflect that not only is the market currently rejecting this level of pricing, but it also rejected it at a time when values were generally higher. In other words, if the property was overpriced when prices were higher, it is even more overpriced after values drop. If information can be obtained regarding offers of the properties listed, this can be extremely helpful in developing meaningful adjustments. As with most segments of the real estate industry, properties are worth less than the seller is asking, but more than a buyer's initial offer.
- Assuming some of the comparables that reflect closed transactions are not extremely recent, adjustments for changes in market conditions will likely be appropriate. In the current market that would mean, among other things, that selling a property after a prolonged period of high unemployment is more challenging than it would be in a healthier economy. While the market's sensitivity to high unemployment is not unique to churches, it does merit special attention. Changes in values do not necessarily correlate directly with changes in average sale price, but the general directions will usually look pretty similar. Analyzing current listings is often helpful in developing adjustments to reflect current market conditions, as is interviewing brokers currently attempting to market similar properties.
- While developing a sales comparison approach for a religious service property is similar to that of any other non-income producing property, there are certain characteristics specific to this property type. As discussed previously, one important consideration for a religious service property is its size-to-seating ratio, as greater seating capacities typically reflect a property's capacity to accommodate a larger congregation. Also relevant is that sanctuaries often reflect high quality construction, and reflect high per-square-foot costs. Appropriate size-to-seating ratio adjustments will reflect a property's having more or fewer seats per square foot of total building area compared with the comparable being analyzed. Another important consideration for houses of worship is the need for overflow parking. Having surplus land for an office property may not do much to drive value, but larger sites typically enhance a church's marketability to an extent greater than for most other property types.

After data has been selected and analyzed, each comparable should indicate a value for the property being studied. By giving greatest consideration to the most relevant data, and less consideration to the rest, the various indications can be reconciled to a single estimate of value. During periods of prolonged unemployment, it's usually best to give greatest consideration to the most recent transactions. However, if thoughtful adjustments were made to reflect changes in market conditions, less recent transactions may be meaningful as well. Listings often reflect the high end of the range of values that may be appropriate. Unless there have been credible offers, they rarely reveal what a property can sell for—but knowing what a property *cannot* sell for is sometimes of enormous importance.

SUMMARY

Like most other real estate assets, the market for religious service properties is heavily influenced by prolonged periods of significant unemployment. An understanding of how and why chronic high unemployment affects this market is needed by anyone who buys, sells or estimates the value of these properties, as well as counselors whose guidance is sought on these matters.

Religious service properties are bought and sold for a variety of reasons, and during periods of economic duress financially distressed sellers, short sales and properties sold out of foreclosure become more prevalent. Unemployment, specifically, affects this market, as it suppresses tithing, which can degrade a congregation's ability to make large purchases and/or meet current financial obligations. Further, when the period of high unemployment is protracted, there is an aggregating affect, so that the weakening of this market compounds over time as the problem persists.

Estimating the value of a religious service property during such a period becomes somewhat complicated, but is still possible. ■

ENDNOTES

1. The United States Churches Database published by *www.data-lists.com* and updated November 12, 2012, reports there to be 94,435 religious service properties in the U.S.
2. Carter, B., personal research, February 2013.
3. Fanning, Stephen F., "Market Analysis for Real Estate," Appraisal Institute, 2005.
4. A March 20, 2012, report issued by the National Council of the Churches of Christ, *http://www.ncccusa.org/news/120209yearbook2012.html.*
5. A megachurch is a church that typically has weekly attendance of about 2,000 people or more. Source: Warren Bird and Scott Thumma, "A New Decade of Megachurches - 2011 Profile of Large Attendance Churches in the United States," Leadership Network and Hartford Institute for Religion Research, November 22, 2011.
6. Ibid.
7. *The Appraisal of Real Estate*, *Thirteenth Edition*, Appraisal Institute, p. 142.
8. External obsolescence is defined as "an element of depreciation; a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord or tenant." *The Dictionary of Real Estate Appraisal*, *Fifth Edition*, Appraisal Institute, p. 73.
9. Op.cit. at 8, p. 141.