

SENT VIA EMAIL

Church Planting and Commercial Real Estate

Some thoughts for discussion....

You can spend a lot of time and energy investigating real estate to determine if it an acceptable option, so its really important that you know specifically what you are looking for before you tour properties.

- I always recommend you get a local commercial professional to represent you and your church: CCIM or SIOR Certification is preferable. This certifies they have experience and a wide range of knowledge – unfortunately it doesn't measure personality....

Benefits:

Market Knowledge

Provides instant credibility with the Landlord/Owner/Property Management

Typically have ancillary relationships with architects, engineers, construction

Negotiations are more complicated than square footage, price and term

- Location is a big deal and you shouldn't settle for a great facility in a bad location. So be honest not expedient!
 - Will your people/or the people you desire to reach recognize the facility or location?
 - How will they get there? Bus, Train, Car.
 - Each form of transportation must be somewhat convenient vs hard. If your church drives, then parking can be a deal breaker.
 - Doesn't have to be perfect, but it can't be too big of a hassle. If it is, you'll have plenty of visitors and a small core group.
 - You must identify your core area you want to reach and how you will describe the directions. How many turns off the main road would be a quick indicator.
 - Landmarks are good
 - Road Identification and Familiarity
 - Access to property
- Gross Lease vs Net Lease: All leases are a variation of these two lease agreements. The lease agreement should specify what you get for your monthly payment, and what else you could be responsible for paying for in the future. You have to understand who pays for what. If someone says they are using a standard lease agreement just nod, but know there is no such animal. Every deal is different. So, it's absolutely important for you or someone on your team to fully understand the terms of the deal even if it is 35 pages long.
 - This could include HVAC replacement, your portion of the Real Estate Taxes, Building Insurance, some or all of the maintenance while you occupy the space etc.

- An office building typically is a Gross Lease meaning the utilities, taxes, insurance and maintenance are all rolled into a flat (usually higher) rate. A Net Lease (like a warehouse) means the owner is simply leasing you the space but you will pay the Taxes, Insurance and Maintenance, utilities separately (meaning the base rent is less expensive). Then there are variations of Gross and Net so that's why you have to know specifically what you are agreeing to prior to signing anything. If the lease doesn't spell out these items clearly enough you will want your attorney to clean up that language so there isn't any confusion about who is paying for what throughout the lease term.
- Common Area Maintenance (CAM) – again this can mean a variety of things but generally it means you are required to pay your proportionate share of property taxes, insurance and maintenance costs for the property (TIM). These generally are those items that are done without your involvement, such as repairing a leaking roof, maintaining the landscaping, resealing and striping the parking lot. Keep in mind these are negotiable as well and there are ways to limit or CAM Stop these expenses so it isn't an open check book for the LL while you are their tenant.
- Landlord's come in a variety of levels of sophistication. Some are local investors, some are local development companies with a portfolio, some are corporate entities. Your broker should know who owns the property so you know up front what some of the likely terms and conditions will be early on. The greater degree of sophistication the more technical their lease will likely be meaning you will need a lawyer to also assist in negotiating the terms of the lease.
- Under no circumstance should you operate without a lease agreement in place. You may have the nicest LL on the planet but you must assume the worst scenario when it comes to your church's ability to meet regularly. For example, a very wise Broker used to say, "back the hearse up", meaning what happens when one of the principle parties die and you are standing in front of a judge arguing over the use of the building. Will the terms and conditions of your agreement be crystal clear to a third party so you have confidence in your ability to use the space as you want for as long and for the price you negotiated up front? A written, signed agreement is the only thing that is legal. Verbal commitments are useless in court.
- Know your budget. What can you afford in monthly payment, utilities, insurance plus the unforgotten Capital Expenditures. I normally recommend a church run two separate budgets when preparing for a move.
 - First, is your overall Operating Budget for the church
 - Second, is a Capital Budget which goes department by department listing the Furniture, Fixtures & Equipment (FF&E) items needed for the move. This budget would also include any costs not covered by the point below. These are one-time costs and should be handled differently than your Operating Budget.
- Another important point is who is going to pay for the improvements before you occupy the space. Some LL's offer what is called TI's or Tenant Improvement Dollars. This is usually a credit not requiring repayment. Most of the time these TI's do not cover 100% of the work required by the Tenant therefore you have to negotiate it.
- Under no circumstance should you personally guarantee the loan or lease agreement. The church must stand on its own. This should be stated up front by your broker so no confusion will occur later on during the lease negotiation.
- Security Deposits are on the rise across the country. In the past, LL's normally charged the equivalent of one month's rent as a deposit. Now I am seeing 3 months regularly be sought. This can be a

tremendous burden on your budget. The Lease Agreement should be clear on how and when the deposit shall be returned. This is often overlooked which gives a LL permission to charge back a variety of things at the conclusion of the Term. So, spend time knowing and agreeing how you are to return the space.

- Zoning Code – Ask what type of zoning, special use permit etc. will be required for your use and area. Each community will be slightly different so don't assume anything. Churches are typically called "Assembly Space" which will fall under what's called a conditional use if not already set up for assemblies. NOTE: I did run into a small 5th Class City in Miami last year that actually had a moratorium on churches, meaning they would not allow another new church in their community. You were forced to take over for a church going out of business. Not sure if this will take off across the country, just be aware of the zoning laws and requirements so you don't get caught spending time and money on a location that has no possibility of ever happening.
- Call the Fire Marshall early on in the process of bldg. identification. They will eventually have to sign off on your project, so get them involved as early as possible. They should have first-hand knowledge of every building in their area. They can talk about exiting; fire attenuation devices; capacity etc.
- What size of building should I be looking for is always a discussion point for CP's. How much space do I need for worship, kids, general flow? If you're building a new facility, the experts will recommend 50 to 55 sf (total bldg. size) per person you want in your sanctuary, i.e. 500 seat auditorium x 50 sf = a total building size of 25,000 sf. This will give you room for aisles, restrooms, classroom/office, flow, vestibule etc. However, I've worked on a number of church plant projects that were leasing space and based on the configuration of the actual available space we've seen 40 sf down to 33 sf and still been able to make it work. Configuration makes a big difference. We've made most anything work if we had too, but those numbers are a quick rule of thumb. These numbers are likely to change in the future by the way. COVID is making all of us rethink how we gather in the future.
- Term is the general vocabulary used for the initial period of time you will be leasing the space. Option means a pre-negotiated period after the initial Term. The shorter the Term the less money the LL will be willing to invest into the space, meaning if you do a one-year Term, then you will probably be taking possession of the space "As Is". If you are willing to sign a Lease for 5 years, the LL will likely provide paint, carpet, move a couple of walls, etc.
- You want to have sub-lease privileges built into the lease. This is usually not objectionable to the LL, but gives you the ability to move out early in case you outgrow the space.