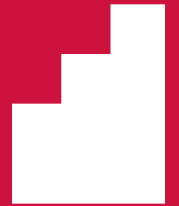




JUNE 2020

# Church Real Estate Market Report COVID-19 Edition



CHURCH  
REALTY



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BY JOHN MUZYKA



CHURCH  
REALTY

The Church Real Estate Market (CREM) is unique. Churches buy, lease, and sell real estate throughout their life cycle. For the last 33 years, Church Realty has been exclusively serving churches and schools with their real estate decisions. Over the last 14 years, I have seen the highs and lows in the CREM. Often the CREM is countercyclical to the greater real estate market. In a hot market with high prices, it is more difficult for a non-profit to compete. As the COVID-19 crisis hit the United States, the impact on the CREM was not immediate. Many projects have continued with minimal slowdown. Any sales that were contingent on zoning changes or city approvals have slowed but continued. Some churches chose to hit a pause button so they could focus on ministry and their people. Churches that had launched or were preparing to launch capital campaigns immediately hit the pause button. Current construction projects have not slowed during the crisis. Many contractors were labeled essential workers, so the projects were able to continue.

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Three months into the crisis here in Texas, we have seen two transactions completed and two contracts terminated. Other transactions are continuing and look to be in line to close this



summer. Currently, we have more than 50 properties listed in Texas, with ten projects under contract. According to CoStar, there are 59 church/school properties listed in Dallas-Fort Worth. At this point, we have not seen any distressed sellers. While many churches have seen a dip in their giving, most have been able to weather the storm. We have talked to several churches that saw a drop for the first few weeks, and then once they implemented online giving, they have been able to recover to 90% of their regular giving. As churches resume operations, we do expect that there will be a reshuffling of the deck. For some churches that have weathered the storm, there will be a delayed toll. Changes in membership and who attends live services may change, but we expect that we may not know the reality of those outcomes for 8-12 months. We have heard of churches that have considered changing their operations with one pastor considering selling his real estate to go 100% into online ministry. The coming months will require church leaders to make strategic ministry decisions that may affect their real estate.

As we are now moving towards re-opening the economy, churches that had pushed the pause button are now making decisions. Lenders are still open to lending, but lenders will be looking at loans with different lending criteria. Giving has been affected during this season, and we may not fully know the impact until churches start to gather again, and people return to work. We expect the third quarter of 2020 to be a recovery quarter. We also project that it will take the full third quarter before church activities resume to the new normal. This return to the new normal will help church leaders understand the more prolonged effects of the Covid-19 crisis. At the same time, I expect churches will prepare for a second season of online church if necessary, in the 20-21 flu season. Different churches will feel different results from this crisis as it relates to their facilities and budgets. Let's discuss the forecast for Church Real estate in the following categories.

### **Church Plants**

Most church plants rent space one day per week, or they have a long-term lease space that they use 24/7. Church plants meeting in schools, hotels, movie theaters, and gyms should prepare to engage their landlords with plans to clean and disinfect the space they use. I have heard from multiple church plants that their landlords do expect to allow them back in their spaces, but the dates are not yet clear. I do expect that these churches will want to consider securing a seven day a week lease space in case of a second wave in the next flu season.

Before COVID-19, the leasing market for churches had tightened. The market had turned from a tenant's market to a landlord's market. We have seen multiple churches that were long-term, on-time paying tenants that lost their lease space at the end of their lease with no option to renew. In many of these situations, the landlord had determined that he could convert the space for higher-paying retail tenants that better fit the plan for the shopping center. A church looking for commercial lease space needs more cash on hand to pay higher rents, finish out space, and seize opportunities. Post COVID-19, we expect more churches will be looking for lease space. Securing that space will take a specific strategy to satisfy landlords' requests.

Church plants meeting in lease spaces may want to consider engaging their landlords to see how the HVAC systems run in their space. A church may want to invest in an air purification system to protect its members in the space. You may need to obtain landlord approval, and you may want to see if the landlord will participate in adding a system that you might be able to leave with the space when you vacate.

### **Multisite Churches**

Many, if not most multisite churches start in lease spaces. Like church plants, they may meet in a school, theater, hotel, or other limited use facilities. Leaders of multisite church campuses will need to consider the same communication with their landlords as suggested above to Church Plants. Some multisite churches may want to secure a seven day a week ministry center close to their temporary space. These ministry centers can be 3,000 - 10,000 square foot lease spaces that allow you to supplement ministry activities during the week and provide a space to record services when necessary.

In the coming months, industry experts believe there will be opportunities to secure buildings in the community not previously available or affordable. It would be wise for your leadership team to identify which campuses may need to purchase a facility. Define a budget and examine the ministry need in each specific location. Churches that have seen a rise in online viewership and new giving, in particular zip codes, may find a need to launch new campuses.

### **Megachurches and GigaChurches**

As megachurches and gigachurches begin to regather, they are working to determine how they must change their operations while continuing to reach more people. These large churches have thousands in worship each weekend. During the shutdown, many saw an increase in viewers online. As they prepare to engage and welcome potential guests, these churches also have a heightened sense of caution. Just as a professional sports team is considering fans in a stadium, these churches must consider how they handle thousands of worshippers in a sanctuary. Some large churches may choose to offer multiple services in smaller venues for a season. I do not expect that large churches will try to relocate from large sanctuaries, but I do expect that they will examine how they operate and make changes as needed.

Large churches regularly receive calls from smaller churches that are in decline. These churches float the idea of a merger or request support from the large church. I expect that as we come out of the shutdown, there will be many churches that were in decline before the shutdown that may determine they no longer have a path forward in ministry. The megachurches and gigachurches that receive these calls will not always be able to answer every request. Many of these churches are in the next category, Small to Average Size Churches.

### **Small to Average Size Churches**

Research shows that anywhere from 60-85% of churches in America are in decline. The average size church in America is

89 members. A 2019 research study done by Lifeway Research showed that 57% of churches surveyed had less than 100 people and that 21% had less than 50 people. At some point, many of these churches will decide to close, or the natural decline will dictate they cannot continue). We often work with these churches when it is too late to make the wisest decision as the choice has been made for them. Their people have all died, and less than a handful remain. Many of these churches have elderly populations. After this crisis, it may be an extended season before these folks can gather in public. These churches are the ones that may have an opportunity to be a Legacy Church. By partnering with a church plant, they may be able to pass the baton to new leadership that can use the real estate that the Legacy Church owns and provide a new place for new leaders to minister to people.

I fully expect that in the second half of 2020, there will be a large number of churches in this category that may be seeking a solution. We often come alongside these churches to help them look at all their options and find solutions for their ministry. They may choose to sell and fund denominational church planting efforts, or they may merge with a local church in the community. The solution may not be solely the wisest real estate decision. While real estate will likely be a part of the decision process, there will also be emotional and missional decisions that the church will navigate. Our team of Church Real Estate Professionals helps churches through these critical decisions.

### **Conclusion**

Before COVID-19, the real estate market was strong, and in Texas, prices were up. New construction costs have been on the rise, and it has been difficult for churches to begin construction projects. The COVID-19 crisis is the first crisis in over 100 years that the government dictated that the churches and economy be shut down. Throughout the crisis, the Church continued to function virtually, remaining open and vibrant. There was an increase in ministry opportunities despite the church doors being closed.

Coming out of the crisis, each church will see what the new normal is for them. While there is hope for new visitors and members, there must be a realization that some people may not come back for an extended period. Each church will need to navigate this new normal by exploring options and seeking solutions that are in line with their mission and their budget.

At this point, the Church Real Estate Market has slowed, but we have not seen any indication of distressed properties or motivated sellers. For now, the CREM is in a holding pattern as churches begin to find their new normal.

Stay tuned for our July update.

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