



Conference for Catholic Facility Management **G460**

Tackling Difficult Property Decisions Sell, Hold or Buy: How to Decide What's Right for Your Properties

MIA1707



Speakers:

William McCarthy, CRE

Kathleen Rose, CRE

April 25, 2017



Credit(s) earned on completion of this course will be reported to AIA CES for AIA members.

Certificates of Completion for both AIA members and non-AIA members are available upon request.

This course is registered with AIA CES for continuing professional education. As such, it does not include content that may be deemed or construed to be an approval or endorsement by the AIA of any material of construction or any method or manner of handling, using, distributing, or dealing in any material or product.

=====

Questions related to specific materials, methods, and services will be addressed at the conclusion of this presentation.



Copyright Materials

This presentation is protected by US and International Copyright laws. Reproduction, distribution, display and use of the presentation without written permission of the speakers is prohibited.



©The Counselors of Real Estate 2017
Conference for Catholic Facility Management



Course Description

In this session, real estate advisors experienced in working with Catholic Church officials will share a new template for assessing the appropriate strategy for best managing church property assets. The template was developed in conjunction with the CRE Consulting Corps, a public service initiative of The Counselors of Real Estate® (“CRE”) professional association, involving Church Dioceses and Religious Institutes, and including information for improved decision making, sell, hold or buy strategies, a framework for evaluating real estate assets, and more. Participants will receive a copy of this template.



Learning Objectives

At the end of this course, participants will:

- Understand important strategies for optimizing diocesan real estate assets.
- Know best practices for asset management, and for creating a strategic action plan that includes property inventory, and keep/sell strategies.
- Be familiar with The Ten Most Common Mistakes in the Administration of Temporal Assets/Real Estate.
- Learn how to evaluate and select a resource to advise the diocese about optimizing real estate assets. An Asset Management Template for Church property assets will be provided to participants.





Counselors of Real Estate (CRE)

CRE Members are:

- Recognized records of accomplishment
- Commitment to Excellence and Ethics
- Uncompromising adherence to high standards of professional conduct
- Visionary, yet practical, approaches to real estate and business issues

The CRE Consulting Corps

- CRE members volunteer their time and skill and provide their clients with objective expertise and objective reports.



1. Overview



Real Estate is Organic and Always Based on Fundamentals

Real estate is the foundation of a Catholic Church's Diocese and Mission. It requires stability and vision to be managed effectively so as to ensure the viability of a Diocese. Real estate must be nurtured and managed. The Diocese may grow or contract based upon its history of:

Buy-Hold-Sell

Decisions and then Action(s)

How do you make the right decision?

How do you execute the right action?



REMEMBER:

The normal sequence and actions of a Catholic Diocese should follow in this order.

BUY: To serve the Church's Mission

HOLD: For the long term

SELL: Only after very careful analysis

The best real estate decisions and outcomes are based upon due diligence fundamentals being applied proactively and consistently.



2. Structure and Protocols





A Diocesan Real Estate Portfolio

- Is large and diverse
- Must serve different uses/common purpose
 - Churches/schools/athletics
 - Community support/childcare/food pantry/etc.
- Requires perpetual and highly focused maintenance, repair, renovation and re-positioning
- Faces ongoing risk, obsolescence, deterioration, and operating costs that must be known and managed
- Risk must be assessed, managed, and mitigated
- Real estate must be professionally managed





Diocesan Real Estate requires an Asset Management Focus

- Structure commensurate to the portfolio size
- Strategic view of entire portfolio
- Holistic approach to asset use
- Financial/value perspective
- Interests of multiple stakeholders
- Buy-Hold-Sell Decisions are far reaching
- Requires ongoing internal and external expertise



Do you Have the Right Structure and People to Manage your Assets?



**This is a partial example of a Real Estate office.
Structure Yours around Best Practice.**

Seek, engage, and empower talented real estate professionals that demonstrate expertise; experience; education; skill and diligence; and Faith.

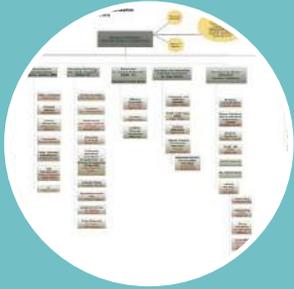


Engage the Expertise you Need

- Factually assess your needs. **Be hard data driven.**
- **Use Best Practices Protocols and Proformas. Benchmark.**
- Each Diocese and Parish must have highly qualified, moral and competent **lay volunteers**. The Parish works with the Diocese.
- Each Diocese should **hire expert staff and pay accordingly.**
- Each Diocese should engage as needed, on a fee or contract basis, experts. **You have the clout to hire the best.**
- Consider if the expertise you need is available locally, regionally or nationally. Talk to other Dioceses. **Seek talent.**



Your Real Estate Actions Must Follow a Strategic Framework



Create an enabling structure to achieve the mission



Identify and maximize existing assets



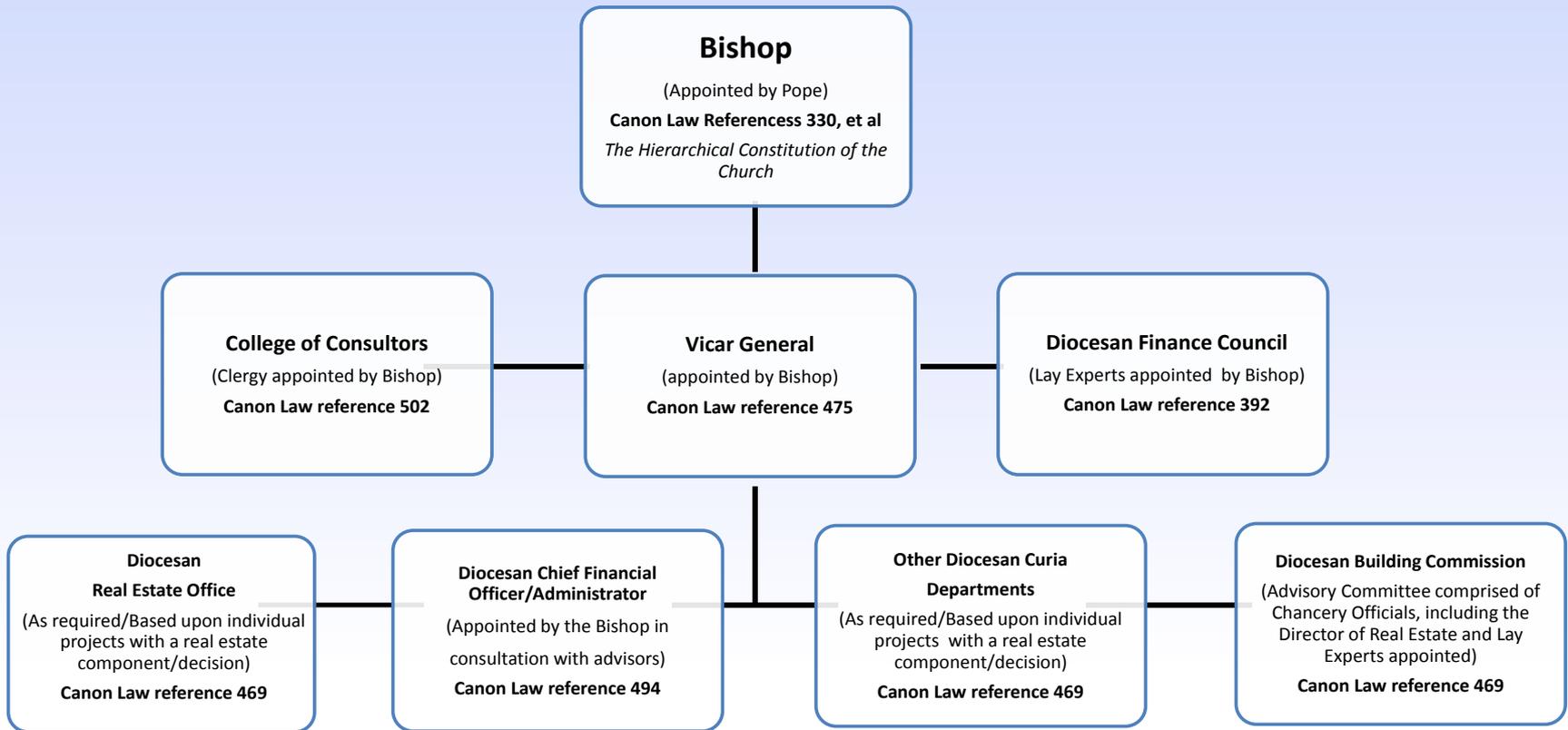
Facilitate growth and expansion

**... REAL ESTATE SERVES THE CHURCH'S MISSION.
STRIVE TO BE PROACTIVE, NOT REACTIVE.**

3. Canon Law and Catholic Real Estate



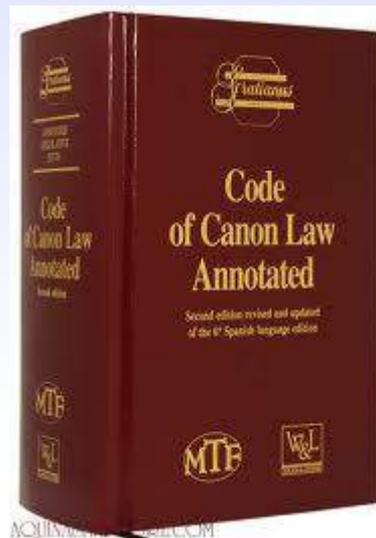
The Hierarchical Structure of the Catholic Church



This basic organization is meant to provide continuity in data collection and analysis; policy recommendation; decision making; resulting action plans; and ongoing and efficient administration – all in compliance with Canon Law.

The Roman Catholic Church: Canon Law and Real Estate

The Church is required to operate under both lay and Canon Law. This compounds the legal demands and requirements - and time.



This is the Second Edition (1983) of the Church's codified Canon Law in its current form. The volume is over 2,000 pages in length. A Diocese's real estate advisors must know its impact on all Church real estate matters.



Catholic Church Real Estate: The Temporal and Spiritual Mandate

With regards to the Church's business and real estate affairs, the basic guiding principle at belief of the Catholic Church is that it has the right to acquire and administer material possessions which she uses to further the Mission she has received from the Lord.

As outlined in Canon Law 1254, the Church has the right **“to pursue its proper purposes, the Catholic Church by innate right is able to acquire, retain, administer, and alienate temporal goods independently from civil power.”**



The Unique Nature and Structure of Catholic Real Estate Use & Administration

- Governed by both **LAY AND CANON LAW**.
- Used to serve the **SPIRITUAL MISSION** of the Church.
- As with all real estate there are **TEMPORAL** considerations.
- The **OWNERSHIP STRUCTURE(S)** of Catholic real estate can be complicated.
- The principle of **SUBSIDIARITY** must be understood and respected.
- Real estate is a Foundation of the Church's **PATRIMONY** from generation to generation. If the Church's mission is forever, how does this effect real estate decisions.
- All real estate deliberations and decisions must reflect these Temporal and Spiritual considerations and safeguard the Church's Patrimony and Mission.



Some Key Canon Law Real Estate Sections

Can. 1284 *All administrators are to perform their duties with the diligence of a good householder.*

Can. 1290 *Without prejudice to Can 1547[5], whatever the local civil law decrees about contracts, both generally and specifically, and about the voiding of contracts, is to be observed regarding goods which are subject to the power of governance of the Church, and with the same effect, provided that the civil law is not contrary to divine law, and that canon law does not provide otherwise.*

Can. 1293 *The alienation of goods whose value exceeds the defined minimum amount also requires the following: (1) a just cause, such as urgent necessity, evident advantage, piety, charity, or some other grave pastoral reason; (2) a written appraisal by experts of the asset to be alienated.*

Can. 1297 *It is the duty of the Episcopal Conference, taking into account the local circumstances, to determine norms about the leasing of ecclesiastical goods, especially about permission to be obtained from the competent ecclesiastical authority.*



The Alienation of Church Property

Alienation means the transfer, conveyance, gift or sale of Temporal goods belonging to the stable Patrimony of a juridical person (Diocese, parish) or another person. Alienation is any act by which the patrimonial situation of a juridical person can be jeopardized (**Canon 1295**).

Examples of Extraordinary Administration:

- The sale of church land and buildings
- Purchasing of real estate
- Entering into long-term loans or mortgages
- Entering into long-term leases
- Issuing bonds and debentures
- Transfer of corporate ownership to lay boards

Always establish who is the owner and on title?

What are the maximum dollars before Holy See approval required?



Administering Catholic Real Estate

1. You must know and correctly **apply both Canon and Temporal Law** in all real estate decisions.
2. Ensure that the Bishop, Ecclesiastical leadership, Diocesan Finance Council and Diocesan Building Commission **and informed and involved throughout. Shared knowledge usually leads to consensus.**
3. You must know your Diocese explicitly. **Know your Diocese's SWOT.**
4. **Canon Law will effect to some degree all Buy-Hold-Sell decisions.**
5. **Canon Law Real Estate requirements and protocols may not be well known**, or uniformly applied in your Diocese by some parties. Address this. Reinforce through policy papers and study sessions.

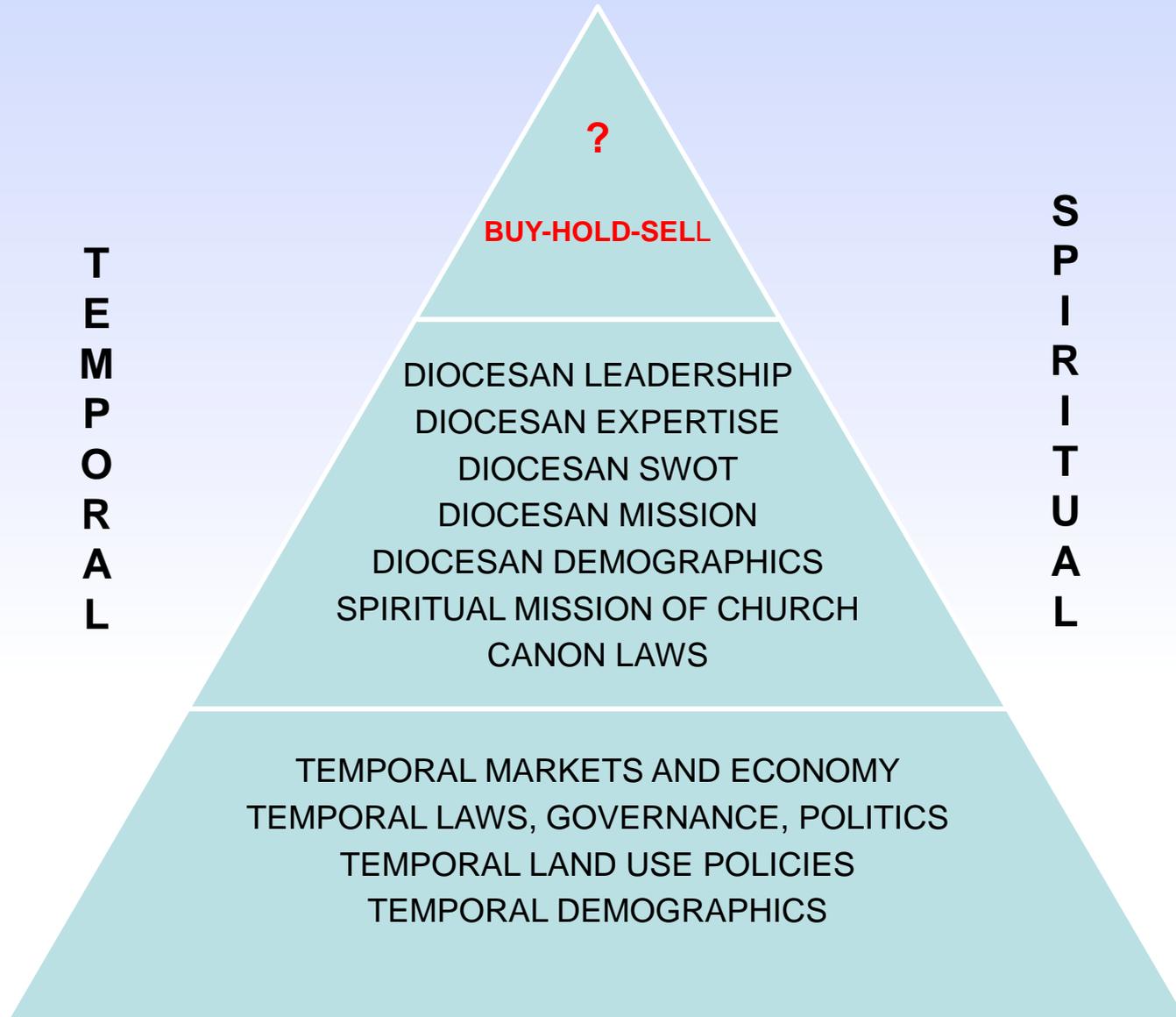


6. Skilled experts must apply proven real estate metrics and fundamentals in timely and systematic real estate decision making. **It is Real Estate!**
7. You must have all the relevant and current objective facts and figures. **Do your own due diligence. No assumptions.**
8. **Be prepared to explain Canon Law requirements and limitations to outside third parties.** It will impact transactions. Plan for this.
9. Structure all your real estate actions, negotiations and documentation to reflect both Canon and Lay Law. **Create and use quality documents.**
10. **Ensure you have a proactive timeframe to achieve your criteria. YOU NEED TIME!**
11. **You always plan for the long term. This is why the sequence is BUY-HOLD-SELL.**



4. Buy-Hold-Sell Action Plans

TIME HORIZON



To Make a Better, or Best Buy-Hold-Sell Decision

- Must be based on facts. Market and Diocesan data driven decisions. Know Market and Diocese demographics.
- Undertake a Diocesan SWOT. Conduct periodic SWOT reviews.
- Identify and manage risk. When problems arise – mitigate. Have a risk management plan always.
- Have good governance and keep the leadership well informed.
- Be consistent in deliberations, actions, protocols and communications. Be systematic in action and execution.
- Be proactive. This requires expertise and time!



Conduct an Objective and Fact Driven **SWOT** Real Estate Analysis – Always

Strengths

Weaknesses

Opportunities

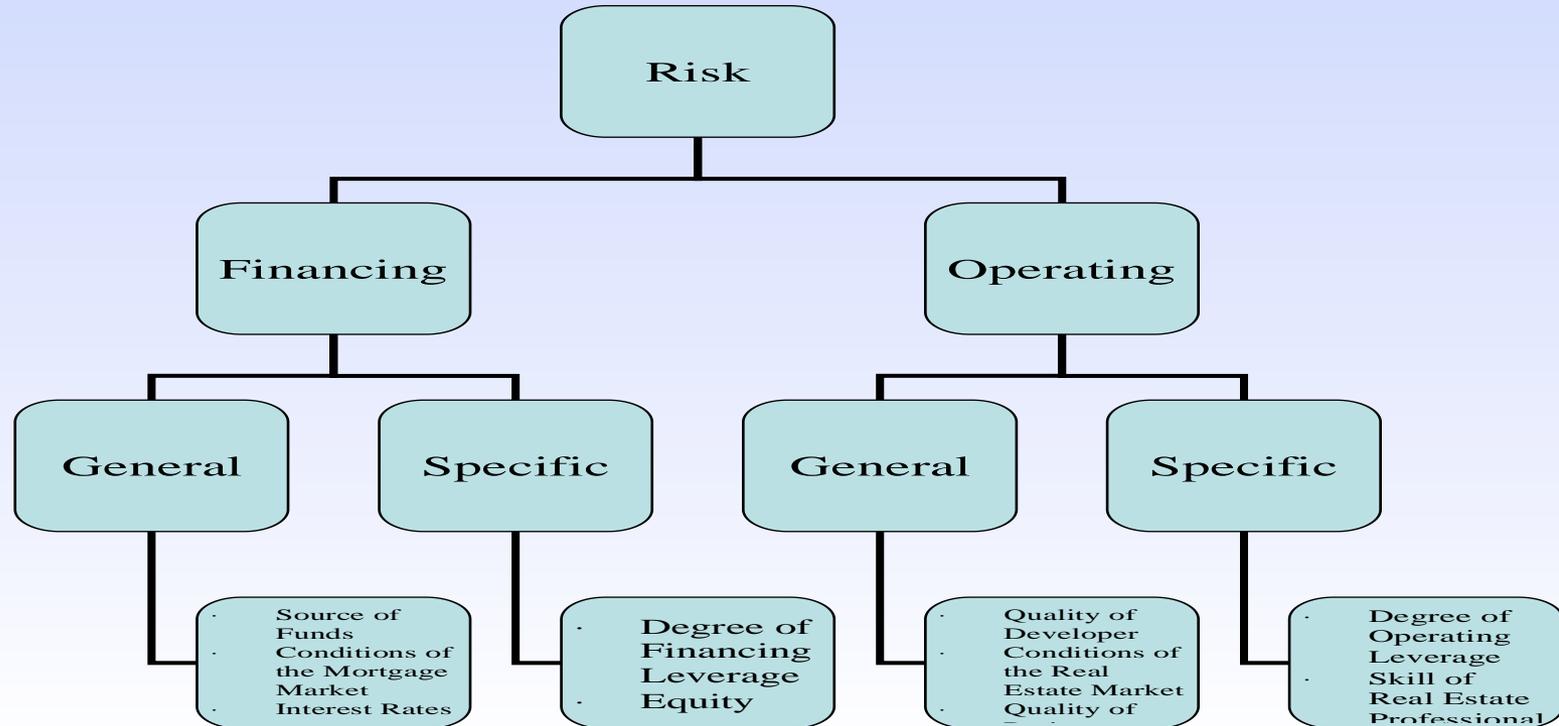
Threats

- **Must be fact driven . Must be objective. Avoid emotion.**
- **Engage relevant stakeholders. They too must be objective.**
- **Involve independent experts assess the micro and macro.**
- **Consider both the Temporal and Spiritual factors.**
- **Consider the Church's long term Mission.**

The consistent application of this basic analytical process will focus attention, and resources and limitations from the start. It can often prevent bad decisions and improve feasible plans.



Real Estate Risk



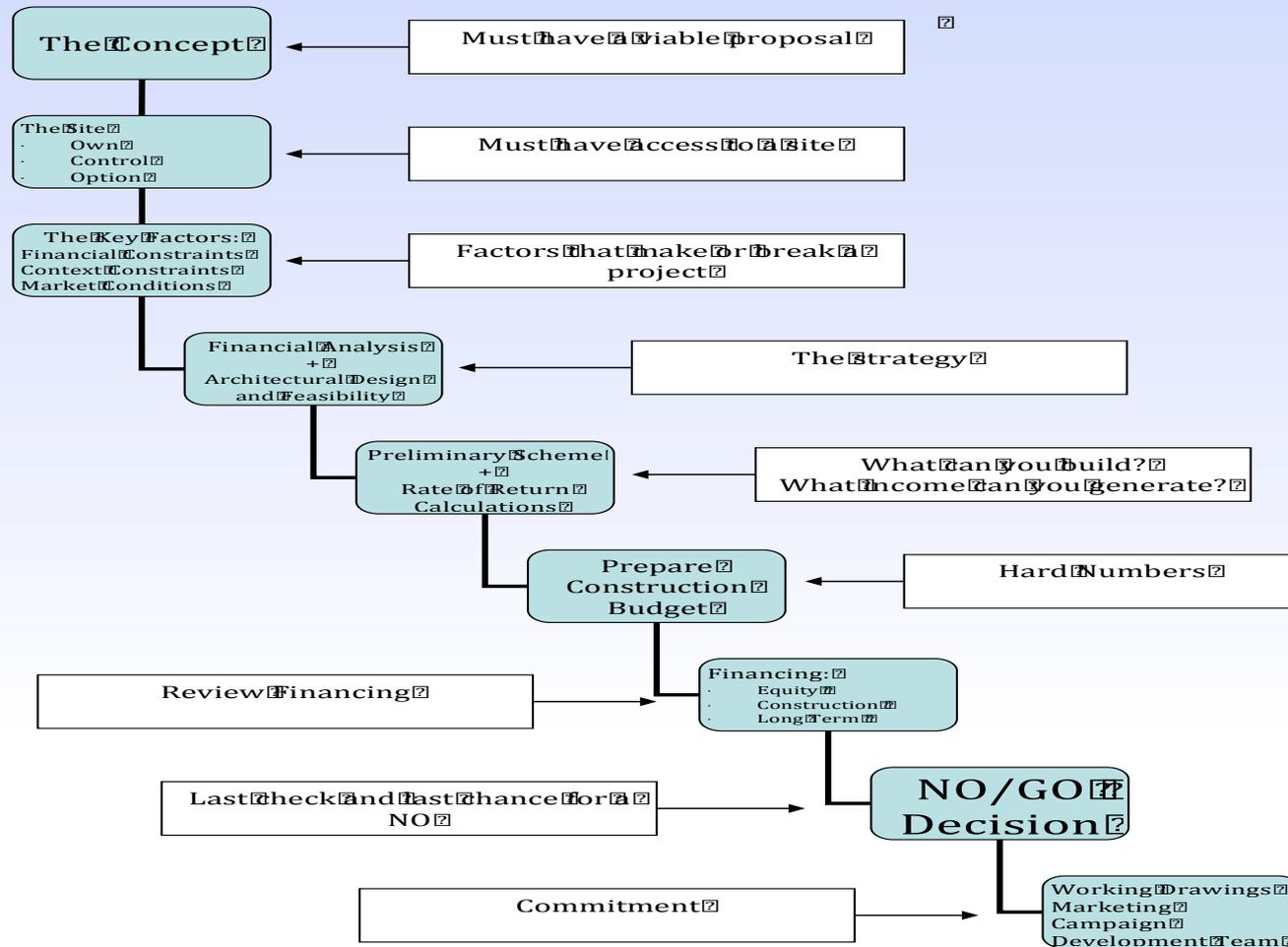
Risk is always present. You identify it, manage it, minimize its impact, mitigate if it occurs.

The Church must be risk adverse. Avoid compounding risk.

All BUY-HOLD-SELL actions have risk.



Developer's Yes/No Decision Matrix



Successful projects follow a logical sequence.
Once you hit “NO” – you stop!

Know The Four Components of a Successful Real Estate Project

LAND	CAPITAL
TENANTS	KNOWLEDGE

. . . The Catholic Church has all of these four components!

The Catholic Church is one of the very few real estate operators with this range of assets and opportunities. A Diocese can leverage these components to their benefit. Use it!!

**How do they impact your Buy-Hold-Sell strategies?
How do you leverage this power in your Buy-Hold-Sell strategies?**



5. Buy-Hold-Sell Guidelines

Applying vision and expertise in your Buy-Hold-Sell decisions and actions for the advancement of your Diocese and its Mission Statement



The Sequence should be:

BUY: To serve the Church's Mission

HOLD: For the long term

SELL: Only after comprehensive review and analysis, and to advice the Mission.

It is always easier to sell than buy. Church institutions require a considerable land base. Many of our historic properties are “under sized” for their current use based upon contemporary land use bylaws. These are “grandfathered” properties. Secular authorities may take note of this. Be cognizant of this.

You will be either enhancing or diminishing your existing and remaining land base by your Buy-Hold-Sell decisions. **Think long term. Be cautious. Be proactive.**



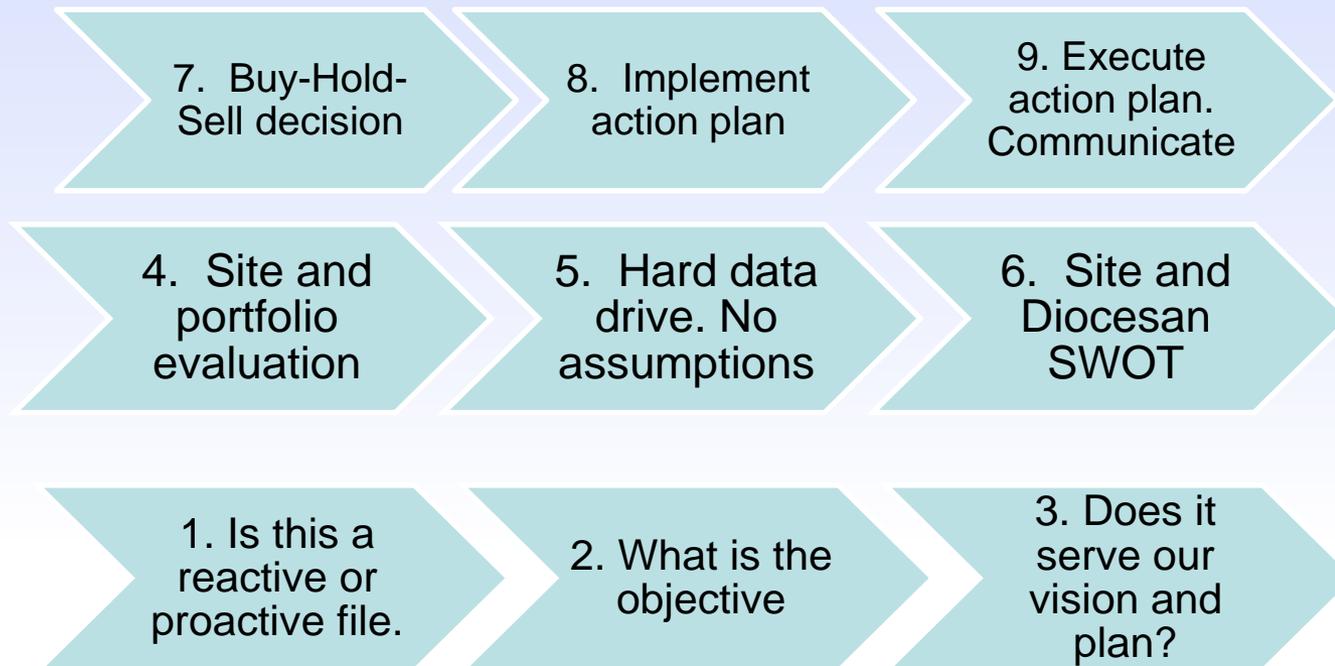
Research and Know your Real Estate Markets

Study Against the Needs of your Diocese

- What are the **Macro** (regional) considerations?
- What are the **Micro** (neighborhood) considerations?
- What are the **demographic trends**, past, present and future?
- **Know all applicable zoning and development bylaws, and Land Use and Official Community Plans.** Are there pending changes?
- **Critically assess site specific strengths / weaknesses**
- **Study relevant purchases and sale transactions. Put in context.**
- **Is it a buyer or seller's market? Is hold the smart play?**
- **What are the Parish and Deanery strengths and weaknesses? What are the implications on the Diocesan Strategic Plan?**



Buy-Hold-Sell Decisions should Follow a Process and Flow



The sequence might vary slightly, but a Buy-Hold-Sell decision should always be based upon similar steps and guidelines. Consistently follow in a sequential manner real estate analytics and your Diocese's protocols.



Real Estate Negotiations and Canon Law

The unique nature, governance and Mission of the Catholic Church must always be factored into your analysis and decisions. Use this when negotiating with third parties and governments. (They may find this mysterious and challenging – this can be used in the Diocese’s favour.)

Do not reference, or allow others to reference what other religious denominations or community groups are doing with their “surplus” real estate without factual context! **These are usually not true comparables.** They are not governed by Canon Law. The Church’s Mission is perpetual.

Use these points as leverage. Incorporate these into your negotiating tactics. Have skilled negotiators on your team.



Canon Law Real Estate Negotiation Leverage

Use and leverage to the Diocese's advantage the Catholic Church's Canon Law, governance and approval process when negotiating with third parties or government officials.

Use this as a strategic tactic to:

- 1. To define and/or increase time frames favorable to the Diocese;**
- 2. Seek lower price (if buying) or higher price (if selling). Consider hybrid pricing (ie. cash and land);**
- 3. Gain concessions;**
- 4. Reference and leverage the Church's social, community and educational efforts;**

Third parties want to “complete a deal(s).” They crave parties with assets and the ability to close deals. The Catholic Church can do both! For this certainty and stability, and the possibility of future business, third parties in turn have to accommodate your time frame and protocols. The key, create the agenda and timeframe favorable to the Diocese.



Some Key Diocesan Considerations When Considering Whether or Not to:

Buy

Hold

Sell

Because the Diocesan's real estate portfolio must be considered holistically, there is always some cause and effect and linkage when one decision is made. Knowing how to leverage the best decision can create future real estate and Diocesan Mission synergy.



BUY

- **Buying property for the Church must be strategic and focused.**
- Generally the Church only considers properties which serve its current and future plans – the Mission of the Church. Demographic information and where the Church should “be” in a community or region requires very sophisticated modelling. **The Church has to plan well into the future – and in a world that is changing rapidly.**
- **A Diocese must have a budget, financial and financing resources and stewardship commiserate with its plans.**
- **The Church has to be target specific in its acquisitions.** It must have templates in place to know how much land it requires for each operation (Parish, school, outreach, etc.) and what options are available based upon Official Community Plans and land use and restrictions.
- The Church must have the ability to review, discuss and **negotiate with civic governments and planning authorities as required from time to time.**
- **The Church must have the expertise, stealth and skill to negotiate land purchases on the most favorable terms and conditions.**



HOLD

- **Is the decision to hold onto a Church asset long term and strategic?** Is the property part of a future project or expansion?
- **Is the decision to hold based upon market factors and decisions** – and the property is earmarked for sale at a later date? Even if the property is slated for sale in the future, periodically review this decision and test the reasons for considering a sale against current market conditions and Diocesan plans.
- **Is the Church holding the property at little or no carrying costs and waiting for appreciation to capitalize on?** If this is the current plan, can it be tested and reaffirmed?
- **Hold Church property until a solid business case can be made to dispose of it and all stakeholders have been consulted. In these cases no action is the right action.**
- **Remember, it is generally easy to sell Church property but very difficult to buy new properties, especially those strategic to current operations.** Many Church sites are grandfathered under old zoning and land use considerations and once lost they are gone. **Do not dilute adjoining holdings!**



SELL

- **Any sale of a Church property can be a challenging proposition and an emotional one as well.** Any decision to sell must be the result of a thorough and complete analysis and the decision clearly defensible and the communication thereof explainable.
- **Who owns the property and is on title? Why are you selling?**
- **What are the implications for the Diocese and/or the Parish?**
- **How was the decision to sell reached?** Who is promoting the sale and why? Is it the most prudent decision now and for the long term – or is it an expedient means to an end?
- **If you sell, how do you ensure a maximum rate of return?** Have you considered highest and best use; zoning and density impacts; the Official Community Plan, etc.? Do you have appraisals and other relevant data to ensure you are not leaving “value on the table?” What expertise are you engaging to assist the Diocesan team?



Buy-Hold-Sell Decision Matrix Example

Criteria	Redundant	Obsolete	Risk	Annual checks
Mission	X			
Technical		X	X	X
Economic	X			X
Financial	X	X	X	X
Usage	X			X
Tools				
Quantitative	X	X		Valuations/Cash Flow
Qualitative		X	X	Analysis
Market date	X			Reports

**Create or enhance your own matrix.
Apply consistently and objectively**

(Note: X are for example purposes)



Example of Buy-Hold-Sell Analysis Metrics

Using industry formats, best practices from other Dioceses, and your own Diocesan protocols, design and use a Buy-Hold-Sell template to analyze your real estate decisions and action plans.

Continually review your practices and forms. Always seek improvements.

Use group debriefings to objectively and candidly discuss where you succeeded and where you can improve

Template
Buy/ Hold/ Sell

Purpose: A scorecard to assist in the determination of an asset should be bought/ held/ or sold

Location:
Address:
Town:
State/ Zip:
Contact:
Phone:
Email:

Demographics

	2015	2020	
Parish/Area Population			Five year projections. Define market area.
Income level			fill in Compared to US Average
Average Age			fill in Compared to US Average
Number of Parishioners			

Current Status:
Current Use (include frequency):
Size (square feet):
Land Size:
Location: **Good Fair Poor** Accessible to transit or major roadways
Area amenities: **Good Fair Poor** Quality of construction, parks, schools, shopping, etc

Operational Issues
Is this an important asset for Church functions?
Is this important for other reasons (historic, etc)?
Annual cost to operate (see checklist): \$0
Funds available to operate (see checklist): \$0
Annual debt service: \$0 Outstanding debt, if any:
Cash flow, positive or negative, from property: \$0
Are Church staff/vendors able to maintain property? y/n If no, need property management services
Are Church staff able to coordinate a sale? y/n If no, need advisory services in addition to brokerage

Financial:
City Assessed value: \$0 Note: City values are usually not accurate
Appraised value: \$0 Need an independent appraisal
Building condition: **Good Fair Poor** Circle one
Cost for basic repairs: \$0 Need a property condition analysis
Environmental status: **Good Fair Poor** Circle one
Cost of remediation: \$0 Need an environmental report
Re-useable for other Church need? y/n Circle one
Cost to renovate: \$0 Need project manager to plan and estimate
Total cost for use/ reuse: \$0
Annual cash flow if repaired/used: \$0 May be different from above
Cost to sell: 8% \$0 Commissions, legal fees and closing costs estimate
Proceeds of sale: \$0 Appraisal less cost of sale

Analysis
Sample:
The land is not a core property, but has high value so should be monetized.
No environmental issues found in engineering report
Need to contact hospital (adjacent land owner) to see if they have interest in purchasing.
Central office needs to handle this transition, as local parish does not have the capacity.



6. Final Buy-Hold-Sell Analysis and Considerations



Final Recommendations for your Buy-Hold-Sell Decisions/Actions

1. **Professionally analyze** your Diocesan Real Estate Portfolio and Practices. **Always know your property valuations at any given time.** Be objective and fact driven – always.
2. Know your Diocese and Real Estate from an objective **SWOT** analysis.
3. Realize that a Diocesan real estate portfolio is generally a sizeable and complex one. You are major land holders. It requires **Asset Management.**



4. Know your **Canon Law and its applications.**
5. Know how **Canon Law connects to the Lay law.**
6. **Connect the Temporal with the Spiritual.** They serve one another. The Temporal supports the Spiritual Mission.
7. **Know your Diocese's strategic plan and visioning statements.** Can and does your real estate serve these professionally and effectively?
8. **A Diocese must be proactive not reactive.** This requires a significant time horizon and planning.



9. Always strive to improve the Diocese's governance structures from the Parish up. Ensure all mandated committees and councils have qualified members. Keep them well informed and engaged. Ensure that the Bishop and his Ecclesiastical leadership are fully informed so that they may exercise their own Temporal and Spiritual due diligence on behalf of their Diocese.

10. Be consist in the collecting and application of:

Data

Process

Performance

Governance

Communication

11. Study/work with other Dioceses and organizations to refine protocols. Real estate is market and data driven.



12. Implement Best Practices

Discuss best practices with other Diocese. Communicate regularly.

Establish benchmarks

Monitor results / refine

13. Empower your Real Estate Team in conjunction with Diocese leadership.

Search for the best real estate professional candidates.

Hire quality. Pay accordingly!

Engage as needed on a contract or fee for service basis experts to assist your Diocesan team.

14. Real Estate is a long-term proposition.

Your Buy/Sell/Hold strategy is critical for the present and the future of the Diocese.



15. The future of a Catholic Diocese will always be tied directly to the wise use of its **Patrimony** and the Real Estate decisions and actions that have created it and sustained it.



Avoid these Catholic Church's Buy-Hold-Sell Traps

1. **Avoid: Decisions made on emotion, not fact.**
2. **Avoid: Decisions made “on a hope and prayer,” and not on facts, figures, reality and due diligence.**
3. **Avoid: Plans where protocols are not being followed** or disregarded from the start, but decisions still expected to be ratified in the future.
4. **Avoid: Decisions made in the hope that “things will improve down the road.”** A bad decision always compounds bad actions.
5. **Avoid: Decisions where there may be indecisive leadership or indifferent governance.**
6. **Avoid: Decisions and actions proposed by disengaged parishes / stakeholders, until they are better focused and mentored.**



7. **Avoid: The well-meaning real estate “Amateur’s”** involvement in the process (especially at the Parish level) who is not qualified to advise or act on major projects.
8. **Avoid: The self-serving Real Estate promoter(s)** offering “advice or deals” (for a fee or commission) and who want access or control of your holdings. Their agenda is usually not yours! Avoid conflicts of interest. Be wary of partnerships. Full disclosure always!
9. **Avoid: Leaving value, benefits and money on the table** by not knowing Official Community Plans, market data, Land Use policies and density data. Knowing your market and optimum time prevents over paying when buying, underselling when selling, and when to hold.
10. **Avoid:** Selling real estate to simply meet operating expenditures. If this is occurring you have systemic problems to correct.
11. **Your Experiences . . . ?**
12. **Avoid Excuse No. 1 . . .**





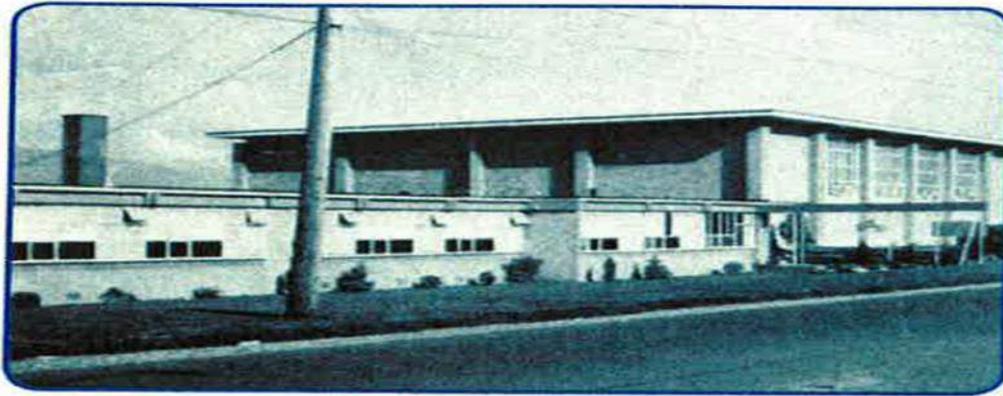
A Comprehensive Buy-Hold-Sell Case Study

Notre Dame Regional Secondary School Vancouver, B.C.

- Relocate and Rebuild the School (Buy)
- Continue to Operate the School as is (Hold)
- Decommission the High School (Sell)
- Another Option . . . ?



THE PROJECT: TO DESIGN A STATE OF THE ART CO-EDUCATIONAL HIGH SCHOOL FOR 800 STUDENTS ON A NON-CONFORMING SITE WHILE CONTINUING TO OPERATE



The original Notre Dame was built for \$263,000 in 1953. It was built to last 20 years. It operated for over 50 years. Serves ten parishes.



VIEW FROM RENFREW STREET

The new Notre Dame Regional Secondary School.

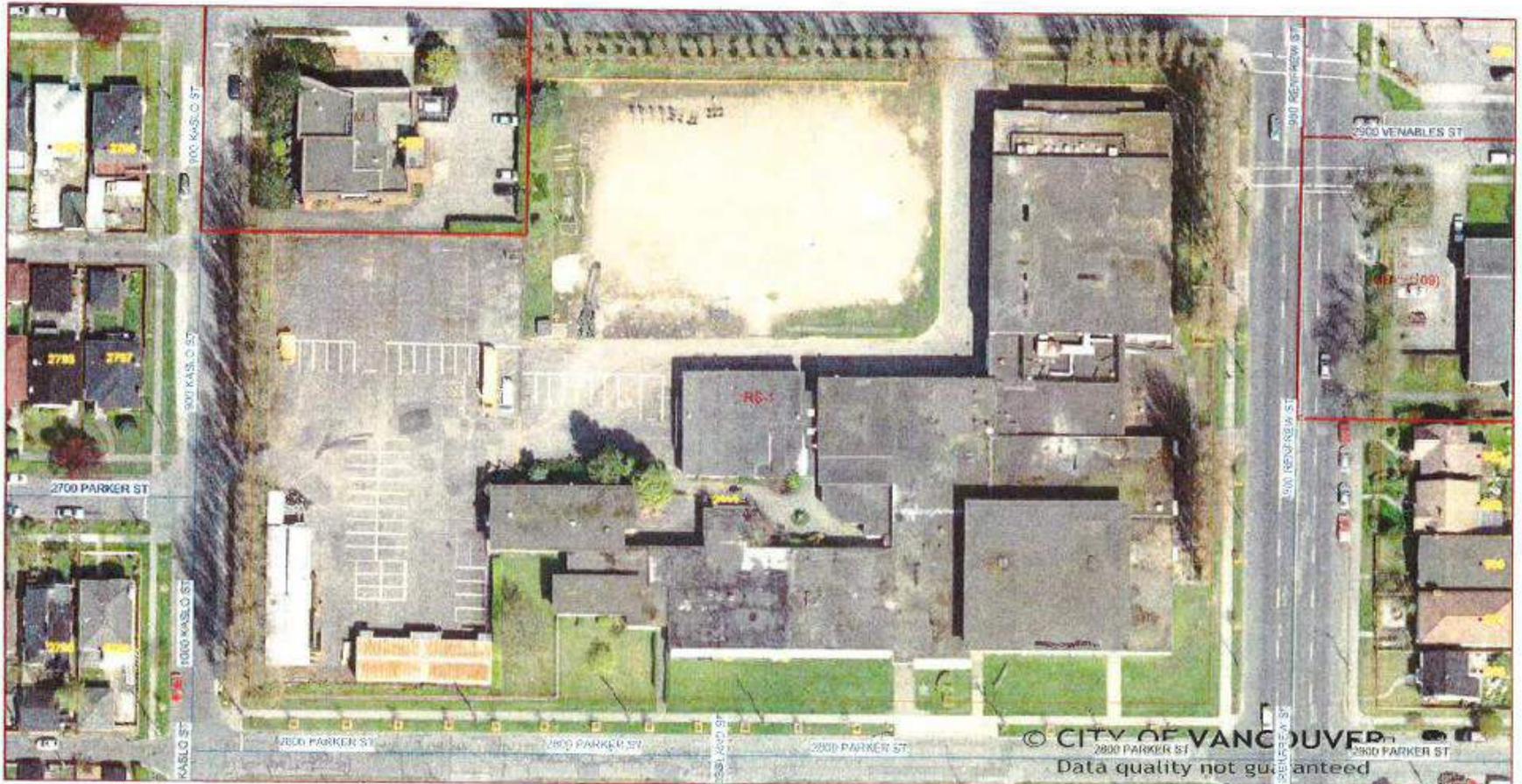
- **State of the art design/ construction**
- **800 student capacity**
- **Green design**
- **Geo-thermal HVAC**



VIEW OF ARTS WING AND LIBRARY FROM CORNER OF RENFREW AND VENABLES

What Buy-Hold-Sell Options Were Available and Feasible?

NDRSS NOTRE DAME HIGH SCHOOL 2007



NOTRE DAME REGIONAL SECONDARY SCHOOL, CIRCA 2007





KILICK
METZ
BOWEN
ROSE
ARCHITECTS & PLANNERS INC.

VIEW OF ARTS WING AND LIBRARY FROM CORNER OF RENFREW AND VENABLES

**NOTRE DAME REGIONAL
SECONDARY SCHOOL**

Ponti Academic Wing	52,900 s.f.
Gym/Multipurpose	17,790 s.f.
Infill Block	26,000 s.f.
Fr. Cuddy Auditorium	<u>5,436 s.f.</u>
Total Square Footage	102,126 s.f.

- Fully built at 77% of the Quantity Surveyors cost estimates.
- Built at 55% of comparable project costs for public high school facilities in the Province of British Columbia, Canada.
- New financing models implemented as Catholic Schools 100% responsible for their capital costs and receive only 50% grant per student. The key was to monetize in various funding and fee schedules the 800 student seats.

NOTRE DAME REGIONAL SECONDARY SCHOOL ARCHDIOCESE OF VANCOUVER



This concludes The American Institute of Architects Continuing Education Systems Course

Questions?



Conference for Catholic
Facility Management
(CCFM)

Andy Guljas
(317) 525-7176



The Counselors of Real Estate
(CRE)

430 North Michigan Avenue
Chicago, Illinois 60611
(312) 329-8427

www.cre.org