FEATURED ARTICLE
BLACK CLOUDS FOR BIG RETAIL MAY HAVE SILVER LINING

A growing ministry seeking more worship or administrative space may look for real estate that formerly housed a large retail operation. As department stores, in particular, appear to be losing favor with American shoppers, it’s natural to wonder whether more, affordably priced retail real estate will soon be on the market.

In a recent edition of Z-News, we outlined common questions a nonprofit organization needs to answer before purchasing a commercial property to be retrofitted for church or school operations. One type of commercial property that many ministries have been purchasing lately are former retail locations. Whether it’s a strip mall or a closed big-box store, large retail spaces are typically found in high-traffic areas with easy access and ample parking. Let’s see how the worrisome trends for certain retailers may have a silver lining for nonprofits in need of affordable real estate.

It is quite possible that more former retail properties will come on the market in the years ahead—if America continues to purchase more goods via the Internet rather than shopping at brick-and-mortar stores. Let’s face it: Shopping online at home is a highly attractive convenience for busy Americans. Why spend time wandering a huge store or mall when there’s two-day free shipping online? To put some of the on-going change in perspective, Census Bureau data shows that brick and mortar department stores had total sales of $230 billion in 1999 versus only $155.5 billion in 2016.

New data for church leaders to digest comes our way courtesy of JP Morgan Chase and General Growth Properties (GGP), one of the largest owners of shopping malls in the United States. As we can see from the graph below, we love our retail in America! Among the industrialized world, the United States is the leader with 24 square feet of retail space per capita, compared with 16 square feet for Canadians and only two to five square feet of retail space for European countries. The lofty square footage of retail is a uniquely American tradition and a result of having ample land available for such structures.

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<tr>
<th></th>
<th>SIX MONTHS PRIOR</th>
<th>CURRENT</th>
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<tr>
<td>5 Yr Treasury</td>
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<td>1.68%</td>
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<td>10 Yr Treasury</td>
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<td>Prime Rate</td>
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<tr>
<td>30-year MMD</td>
<td>3.18%</td>
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Source: Ziegler Capital Markets
Rates as of September 5, 2017

INTEREST RATE UPDATE

With world tensions rising over the North Korean conflict, investors have moved to the safe haven of Treasuries, pushing yields lower than they have been for much of 2017. Market observers are watching the next few months for signs whether or not Janet Yellen will continue as Chair of the Federal Reserve for another term. Her current term is up in February of 2018. She may elect to not serve another term. It is also possible President Trump would nominate a new person for the job. Given this week’s resignation of Fed Vice Chair Stanley Fischer, changes in Fed policy could be on the horizon.

ABOUT US

Ziegler is a national leader in providing financing to religious organizations nationwide.

Contact us for assistance with your financing needs.
If Americans grow even more comfortable purchasing goods and services from online retailers, large retail stores will see less traffic, and more stores will close. But there may be a silver lining in that dark cloud. It is plausible to forecast a significant downturn in the value of retail real estate, as more vacated stores become available to be repurposed. That is good news for organizations looking to breathe new life into those sites.

The chart below, prepared by JP Morgan Chase, notes how much real estate could theoretically become available and need to be absorbed if the demand for retail space declines by even a small amount. A reduction in real estate demand of just two square feet per capita would result in 760 million square feet of “surplus” real estate coming on the U.S. market. That amount might take 13 years for the economy to absorb. If U.S. per-capita real estate fell to the 16-square-feet per-capita rate in Canada, it would result in 2.5 billion square feet needing to be repurposed. A larger change in shopping habits could take decades to digest.

What could this trend mean for your building plans?

That’s a great question! The data above is simply food for thought; it does not constitute a forecast for retail space. It’s possible that U.S. consumers will continue to patronize brick-and-mortar retailers, making this a moot point. Also, the data is based on per-capita numbers which will be affected by future population growth (or lack of it). Nonetheless, the numbers do provide a number of interesting long-range discussion topics for ministries:

- Given that the U.S. has the largest per-capita square footage of retail space in the world, any change in shopping habits away from that model would likely depress retail real estate values. For ministries seeking a new site or a multi-site location, former retail locations may become even more available and affordable in the years ahead.
• However, if you currently own or decide to purchase a retail site, you may not see stable or rising property values in the future. This is not a problem for many ministries, as most are not purchasing property for investment purposes, but rather as a permanent home for their operations.

• If your strategy in purchasing a retail site is to lease a portion to commercial retailers, your lease income could be more at-risk in the years ahead. Ziegler has worked with many ministries who purchased retail sites with a plan to make related mortgage payments with lease income from commercial tenants. If demand for retail space starts to decline nationally, that could affect your leverage to keep tenants and/or generate stable rents. Remember, the likely reason that retail site became available to your ministry in the first place was a lack of higher-paying retail tenants to occupy the space.

These concerns may not apply to every situation. The retail location you purchase may be in an area of significantly increasing population, which could result in rising property values. And as building restrictions get tighter in some urban areas, finding space that is built out and zoned for retail may be more difficult, which could also result in higher land and rental values.

In summary, since the 2008 recession, surplus commercial real estate has been an excellent way for ministries to stretch their purchasing dollars and acquire very functional buildings. If your ministry is exploring the option of purchasing a retail space, we encourage you to read our most recent Z-News issue. It explains key considerations for purchasing commercial space. Understanding these considerations—and weighing the impact of retail trends—could help you create a wise, long-term real estate strategy that significantly furthers your mission.

Scott Rolfs is the Managing Director and Group Leader for the Religion and Education Finance team at Ziegler.
CrossPoint City Church began as a church plant in 2006, with a small group of families meeting at various locations. Throughout 2007, the church's average weekly attendance grew from 250 to 550 people. In 2009, the church purchased, renovated and moved into its first facility, which is still the church's current location. Originally constructed in 1995, the 15,476 square foot facility includes a 300-seat worship space with administrative offices, located on one acre on Tennessee Street in Cartersville, Georgia. By 2010, weekly attendance had grown to 750. In 2012, the church welcomed a new lead pastor, James Griffin. Under Pastor Griffin’s leadership, the church continues to grow, and current average weekly worship attendance is 1,180. As a result of this considerable growth, the church began searching for a larger space and located a property just two miles southwest of the church’s current location.

In 2017, the church moved forward with the acquisition and renovation of this 27,386 square foot church/multipurpose building, containing an 875-seat worship sanctuary, classrooms and offices, located on Old Mill Road in Cartersville. Interior renovations will include the expansion of the lobby area and the addition of a new roof, new HVAC units and a new audio/visual system in the sanctuary. Exterior renovations will include removal of the steeple, painting of the entire exterior of the building and adding signage along Old Mill Road. Upon completion of the renovation project, the church will move all of its ministry operations to the Old Mill Road site and plans to market its current Tennessee Street site for sale.

While the church had raised substantial funds for the purchase and renovation of its new site, leadership sought out a lender to fund the remaining costs, as well as possible future expansion opportunities.

Church leadership considered different lenders but ultimately chose to partner with Ziegler, recognizing the value of a long-term fixed rate financing and its expertise in lending to religious organizations. In January 2017, Ziegler closed on a 25-year fixed rate financing package with the church, which was used for the acquisition of the new church site, to complete the renovation project thereon, and also to retire a small outstanding bank loan.

The financing through Ziegler offered a true fixed interest rate, with no prepayment penalties. Ziegler’s financing structure also provided the church with the ability to refinance its outstanding bank loan and consolidate it with the new debt at a long-term fixed interest rate, which church leadership strongly valued. Ziegler’s financing structure additionally avoids any large balloon payments during the life of the loan, which simplifies budgeting for future years. As a rapidly growing church, with the potential for expansion at its new church site and the possibility of future financing needs, the open-ended mortgage feature is another advantage of Ziegler’s financing program.

“Ziegler was the right lender for us. Our deal was so creative and to make it work, Dave Schlosser continually found solutions to keep moving forward towards our end goal. The Ziegler team worked consistently hard for our dream of a new building to become a reality. I am looking forward to working with them in the future.”

Suzy Jordan
Executive Director
CrossPoint City Church

This client’s experience may not be representative of the experience of other clients, nor is it indicative of future performance or success.