APOSTOLIC ASSEMBLY
OF THE FAITH IN CHRIST JESUS

General Secretariat 2025 Workshop: Protecting the Church's Mission

"Understanding The CRE Market Conditions: Time to Save"

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SCRIPTURAL FOUNDATION

1. **Joseph's Wisdom & Administrative Planning**
    a. **Genesis 41:28-26** – "*Let Pharaoh look for a discerning and wise man and put him in charge of the land of Egypt… Let them collect all the food of these good years that are coming and store up the grain… so that the country may not be ruined by the famine.*"

    b. Joseph, through God's wisdom, implemented a plan to save during the years of abundance to survive the coming famine. A powerful model of stewardship, foresight, and resource management.

2. **The Wisdom of the Ant**
    a. **Proverbs 6:6-8 –** *"Go to the ant, you sluggard; consider its ways and be wise! It has no commander, no overseer or ruler, yet it stores its provisions in summer and gathers its food at harvest."*

    b. Even creatures with limited power and knowledge, understand the need to **prepare in advance**. God encourages His people to observe and learn from this natural wisdom.

3. **Counting the Cost**
    a. **Luke 14:8-30 –** *"Suppose one of you wants to build a tower. Won't you first sit down and estimate the cost to see if you have enough money to complete it?"*

b. Jesus uses a financial planning metaphor to teach the importance of **counting the cost** and being prepared before beginning a task or investment.

UNDERSTANDING THE CRE MARKET

The term "CRE Market" stands for *Commercial Real Estate Market*, as opposed to the Residential Real Estate Market. Church properties are considered "**special use properties"** and full under the umbrella of the CRE Market. In order to best understand how this works, let's examine some **key differences** between the CRE Market and Residential Market:

1. **Purpose and Use of Property**
    a. **CRE:** Used for business or investment purposes (offices, retail centers, warehouses, multifamily buildings with 5+ units, churches)

    b. **Residential:** Used for living purposes (single-family homes, condos, duplexes, and small multi-unit buildings up to 4 units).

2. **Valuation Methods**
    a. **CRE:** Value is typically based on income potential, using metrics like Net Operating Income (NOI) and Capitalization Rate (Cap Rate).

    b. **Residential:** Value is based on comparative market analysis (CMA)—what similar homes in the area have sold for.

3. **Financing & Lending**
    a. **CRE:** Loans are often larger, more complex, and have shorter terms (5–10 years with balloon payments). Lenders focus on property performance, borrower's net income, and the borrower's overall financial stability.

    b. **Residential:** Loans are simpler, typically 30-year fixed-rate mortgages. Lenders look at personal credit, income, and debt-to-income ratio.

4. **Risk Assessment**
    a. **CRE:** Generally higher risk, due to market cycles, vacancy issues, property turnover, and economic sensitivity.

b. **Residential:** Lower risk, more stable demand, and more accessible financing options for individuals.

5. **Regulatory & Zoning Requirements**
   a. **CRE:** Stricter regulations, city-specific zoning requirements, building code compliance, ADA compliance, and environmental standards.

   b. **Residential:** Less regulatory complexity, generally governed by local housing codes.

6. **Market Drivers**
   a. **CRE:** Driven more by business trends, national economic indicators (tariffs, government spending, etc.), business growth or decline, federal reserve interest rates, consumer spending, and logistics.

   b. **Residential:** Driven more by demographics, interest rates, income levels, population growth, and government housing policies.

7. **Liquidity**
   a. **CRE:** Generally less liquid — longer time to sell, limited buyer pool, and more due diligence.

   b. **Residential:** More liquid — faster to sell, larger market of buyers, especially for single-family homes.

8. **Impact of Economic Conditions**
   a. **CRE:** Highly sensitive to economic cycles (e.g., a downturn, or recession, can lead to mass regulatory oversight and restrictions).

   b. **Residential:** More resilient — people always need places to live; they don't need a commercial building as much.

CURRENT MARKET CONDITIONS

It is important for us to understand the current market conditions and how these conditions impact our overall church real estate portfolio and financial stability, as an organization.

Note: *Due to the volatility of the American economy – which is affected by many geopolitical factors – the market conditions can rapidly change from one day to the next. This is one major reason why regulators and underwriters are tightening restrictions on commercial lending.*

1. **Macroeconomic Landscape (The Big Picture)**
    a. **Interest Rates & Inflation**: The Federal Reserve concluded 2024 with a benchmark rate of 4.5% and has maintained this rate into 2025. While further cuts are anticipated, the pace remains uncertain due to evolving economic policies and inflation concerns.

    b. **Loan Maturities**: A significant volume of CRE loans, approximately $600 billion annually through 2028, are maturing. This "wall of maturity" poses refinancing challenges, especially with current interest rates nearly doubling from the 4.3% average of maturing loans.

    c. **Church Impact:** This means that interest rates on new loans have drastically increased and continue to climb upwards of 6-8.5%. With loans coming to maturity at 4-5%, churches will experience an increased principal and interest payment on new loans. Additionally, lenders and regulators are being much more selective about which loans they will approve.

2. **Church Lending-Specific Insights**
    a. **Pre-Pandemic Trends**: In 2019, approximately 4,500 Protestant churches closed, while only about 3,000 new congregations were established. This marked the first time in recent history that closures outpaced openings, indicating a shift in the religious landscape.

    b. **Pandemic Acceleration**: The pandemic exacerbated existing challenges, with estimates suggesting that between 3,850 to 7,700 houses of worship closed **annually** in the decade ending in 2020. Recent projections have indicated that these numbers could double, or triple, in the next decade.

    c. **Membership Decline**: A Gallup poll revealed that fewer than half (47%) of Americans belonged to a church in 2025, down from more than 70% of American households in 2015. This decline in membership has directly impacted church viability and has drastically affected the church real estate market.

d. **Church Impact:** This means that despite the numerical growth we may be experiencing as an organization, the overall viewpoint from commercial lenders on "church lending" is that churches are in decline. Therefore, borrowing money is a **higher risk** and will be more difficult to qualify for. Traditional church buildings no longer hold much value; instead buildings that can be repurposed and resold (warehouse buildings, office spaces, etc.) are more desirable.

REGULATORY LANDSCAPE: LENDING TO CHURCHES & NON-PROFITS

Due to these market conditions, the regulatory landscape for non-profit lending has drastically changed in the last 2-3 years. The following factors are now challenges that we face as an organization, and further support our urgency to enter into a time of savings and financial preparation for our future:

1. **Heightened Scrutiny**
    a. **Risk Perception**: Lenders perceive churches and nonprofit organizations as higher-risk borrowers due to factors like reliance on donations, limited assets, and potential for fluctuating income streams.

    b. **Regulatory Measures**: In response to broader CRE market challenges, regulatory bodies have intensified oversight on lending practices. Banks are now more cautious, especially concerning loans to entities without stable revenue models.

2. **Property Challenges**
    a. **Deferred Maintenance Costs:** Many churches face financial strain due to the high costs of maintaining aging buildings, including expenses for utilities, insurance, and necessary capital improvements.

    b. **Insurability:** As buildings age and churches face property maintenance challenges and financial burdens, churches become at higher risk for insurability. Heightened economic regulations also affect insurance requirements for commercial use properties.

    c. **Real Estate Burden:** Congregations often find themselves allocating a significant portion of their budgets to real estate expenses, leaving limited resources for ministry and community outreach.

3. **Impact on Lending Practices**
    a. **Stricter Underwriting**: Financial institutions have tightened underwriting standards, requiring more comprehensive financial disclosures and demonstrating sustainable income sources from borrowers.

    b. **Reduced Loan Approvals**: There's a noticeable decline in loan approvals for churches and nonprofits, with many institutions either reducing exposure or exiting this lending segment altogether.

    c. **Increased Interest Rates**: Even when loans are approved, they often come with higher interest rates and greater deposit requirements.

APOSTOLIC ASSEMBLY BORROWING CAPACITY

Currently, the Apostolic Assembly has a total debt portfolio of roughly $40.8M. This number is increasing as new churches are planted, older buildings are refinanced, and many pastors have the desire and vision to grow.

- In the current CRE Market the **average cost** to purchase a modern building with a seating capacity of 150-200 people is roughly $1.2M.

- The **average cost** to build a brand new building from the ground up, that seats 150-200 is roughly $2.5M.

- To put these numbers into perspective, this means that if only 10 churches wanted to build a new building, we would be adding roughly $8.5M-$10M to our debt ratio.

Why is this important?
As an organization, we have a **limited borrowing capacity** based upon our current risk assessment and DCSR (debt-to-income) ratios.

As of April 2025, we have maximized our current borrowing capacity. This means that currently, obtaining new loans would not be feasible, without a substantial change in our income or economic conditions. For this reason, the General Board of Directors and Episcopal Body has approved a **temporary moratorium** to be evaluated on a quarterly basis.

STRATEGIC PLANNING & RECOMMENDATIONS

We understand that this is the reality of our current financial situation as an organization. While these conditions are serious, we trust that God is in control of His Church and the Church's economy. Just like Joseph, we must ask God for wisdom and guidance to plan and save during this harsher economic time for our church. The following recommendations have been made to help our organization and local churches:

1. **Strengthen Financial Reserves**: Work hard to reduce unnecessary spending and increase financial income. Utilize fundraising methods and encourage faithful tithing and giving in order to sustain the church's financial position. Finding ways to consistently increase the monthly revenue will make it easier for lenders to approve new loans in the future.

2. **Financial Transparency:** Maintain detailed financial records, using the online ARIS system, and demonstrate consistent revenue streams to build lender confidence.

3. **Avoid Large Purchases:** If at all possible, avoid large and unnecessary purchases that could negatively impact overall net income and avoid new debt at all costs.

4. **Consider Alternative Growth Remedies:** If a church is growing beyond their building's current capacity, consider **temporary** alternative growth remedies such as: conducting more than one service; setting a building-fund goal and saving collectively; temple-sharing with a smaller congregation to increase revenue.

5. **Consider Lease Options**: In the face of stringent lending environments, leasing properties might offer a more flexible and less capital-intensive alternative, as a temporary measure.

CONCLUSION

While these economic conditions have affected our churches locally and organizationally, we understand that this is just for a season. **Ecclesiastes 3:1** says, "For **everything** there is a season, and a time for every matter under heaven…". We believe that right now, we are being challenged to be more prudent, careful, and wise with our investments; we believe it is time to save. With the help of the Lord, we will endure this season of economic difficulty, and ultimately God's purpose and plan will prevail as He gives His Church the victory!

"I can do all things through Christ who strengthens me." – Philippians 4:13