

The Rise of Faith-Based Development

With Mayor Bill de Blasio keen to put money into affordable-housing projects, there has been a rise in faith-based development across the city. Independent churches that own real estate are seizing the moment, mounting development projects that fulfill the mission of their organization and meet the goals of the de Blasio Administration. They're engaged in projects that aim to revitalize communities, encourage entrepreneurship and support the needs of local people. As developers, FBOs typically hope to address a community's underlying issues, rather than enact short-term solutions.

For developers, partnering with faith-based organizations can be rewarding as well as challenging. To learn more about what changes when an FBO is helming a development project, Crain's turned to Osei Rubie, founder and president of title-insurance firm National Standard Abstract (NSA), which has carved out a niche in faith-based development. The firm closed more than \$600 million in commercial real estate transactions in 2018, led by \$274 million in faith-based development deals.



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Q Crain's: Are there unique legal issues that arise with faith-based development projects, or areas of the process that require special attention?

A Rubie: Typically, land owned by faith-based organizations are considered public property. Therefore, if the entity is registered with the Charities Bureau, any real estate transaction must be approved by the attorney general and the state Supreme Court. The AG reviews the transaction to ensure that the religious entity receives fair consideration for the land value and that the transaction advances the organization's mission. A challenge faced by faith-based development is the ability to achieve a mission-oriented focus that also benefits the organization financially. It's important that organizations seek legal counsel that is well-versed in such issues and in preparing the supporting documentation. NSA has been fortunate to collaborate with talented attorneys, who have helped guide the churches we've worked with through the process. On our transactions, John Savage of Bozeman & Savage and Renato Matos of Capell

Barnett Matalon & Schoenfeld, successfully navigated the churches through the process.

Also, sometimes the churches' parishioners may be hesitant to support the sale of the church's land. In that case, the church could explore a long-term ground lease, in which the church holds title to the land and leases it to a developer.

Q Crain's: What challenges do faith-based organizations face in their development projects or transactions?

A Rubie: As property is passed through generations of pastoral leadership, the new pastor may not be aware of encumbrances that prior leadership encountered with the property. Therefore, it's vital that churches periodically commission title reports to ensure that there are no encumbrances that can prohibit a development project. In some instances with older church properties, deeds and other necessary records may be lost or not easily accessible. At the \$70 million Tree of Life project in Jamaica, Queens, NSA helped Rev. Patrick O'Connor navigate this situation in his deed challenge.

Q Crain's: What are some of the ways FBOs and developers can structure projects to deliver the greatest value to the organization and their communities?

A Rubie: I have seen projects organized typically in four ways:

- Churches can sell their property and/or air rights to a developer. The compensation can be reinvested into the church's mission without being directly involved in the new development. For example, when Lemor Development purchased a property from a church contiguous to city- and privately owned lots, the proceeds were used to build a new church.
- Churches may retain ownership of their land and lease it to a developer. Leases are long-term and the church may receive an annual ground lease payment from the developer. Usually, when the lease terms ends, the asset transfers to the land title holder. For instance, Riseboro Community Partners entered into a ground lease with True Holy Church allowing for the development of a house of worship along with residential units and social service space for the community.
- Churches can enter into a joint venture with a developer where the church sells the land to the joint-venture entity that develops it. The church and developer become co-owners. For the recent affordable-housing project at Ebenezer Plaza, the Church of God of East Flatbush entered

into a JV partnership with Brisa Builders in which the church will own not only their house of worship, but also the residential units and commercial retail spaces.

- Churches that already own residential properties can resyndicate the property at year 15, which is a form of renovating the property by refinancing. Churches can then either opt to remain in the development partnership, buy out the partner or engage new partners. For example, CB Emmanuel will work with a church to renovate the senior housing building that they have owned for the past 15 years.

Q Crain's: What are some of the advantages for developers and FBOs partnering on projects?

A Rubie: FBOs are often intimately tied to the community and are typically concerned with maintaining its stability. A significant outcome for the community is an increase in affordable housing. The community truly benefits from the creation of mission-based development when there are strategic and thoughtful partnerships between developers and religious groups.

Developers can realize significant tax benefits, and gain access to both desirable development sites and more funding sources by partnering with FBOs. Since FBOs often provide social services in neglected communities, these development projects may be eligible to receive philanthropic or government-sponsored grants. ■

NATIONAL STANDARD ABSTRACT



Over \$600 Million
closed 2018
\$274 Million in
Faith-Based Developments 2018



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@ The Rise of Faith-Based Development Panel Discussion

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