

LIVING ON A PRAYER: FAITH-BASED HOUSING AS A POLICY TOOL

A Research Paper

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ABSTRACT

The housing shortage is a pressing issue in the United States, with the situation showing little signs of improvement. The distribution of missing units as a percentage of available supply trends is not evenly distributed by state. Most heartland states east of the Mississippi River see rates of less than 10%. Conversely, California stands at 31%, with Washington, Oregon, Florida, and New York trailing at 26%, 22%, 20%, and 18% respectively (Corinth & Dante, 2022, p. 11). This paper presents faith-based housing as an underutilized resource that, if tapped, would serve to lessen the negative effects of the housing shortage. Core to this position is a quantitative argument that churches and other houses of worship can operate housing more efficiently due to their general exemptions from property taxes, and their ability to realize below market basis for land acquisition costs. This paper does not posit that faith-based housing could in of itself alleviate the housing shortage. As such, this paper is directed towards readers, notably built environment professionals, who are seeking an additional tool which can complement an existing portfolio of housing gap closure measures.

BIOGRAPHICAL SKETCH

Matthew Goldenberg is a native of Cleveland, Ohio, pursuing a Master of Regional Planning degree at Cornell University (May 2023). He aspires to work in heavy civil infrastructure development. Matthew earned a Bachelor of Arts in Economics from the University of Cincinnati in 2017.

This research paper is dedicated to my family, who believed in me well before I did.

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LIST OF ABBREVIATIONS

APC.....	Arlington Presbyterian Church
APAH.....	Arlington Partnership for Affordable Housing
IRR.....	Internal Rate of Return
HRTC.....	Historic Rehabilitation Tax Credit
LIHTC.....	Low-Income Housing Tax Credit
NBER.....	National Bureau of Economic Research
UBIT.....	Unrelated Business Income Tax

1. INTRODUCTION

1.1 Opportunity Overview

The United States is in the throes of a housing crisis, with Fannie Mae estimating the shortfall to be 3.8 million units. There is no clear consensus in the available literature on the breakdown of the shortage by housing asset classes, such as affordable, workforce, market-rate, and others. There are, however, indicators that those in the middle-income group are disproportionately negatively affected. Accordingly, only 23% of homes on the market in April 2023 would have been affordable to a middle-income household (*US Housing Market Needs More Than 300,000 Affordable Homes for Middle-Income Buyers*, 2023). Fewer new homes have been built in the United States “in the 10 years ended 2018 than in any decade since the 1960s” (*U.S. Housing Shortage: Everything, Everywhere, All at Once* | Fannie Mae, 2022). Many factors have contributed to this, including but not limited to exclusionary zoning, rising construction costs, and stagnant real wages. The momentum of the crisis has been compounded by an American public that increasingly lives in urban areas. As Americans move toward a culture of urban living, they commensurately move away from a culture of rural living. Thus, the demand for and value of urban land increases relative to the demand for and value of rural land (Alig et al., 2004, p. 224). According to the U.S. Census Bureau, as of 2020 over 80% of the U.S. population lives in urban areas (Bureau, n.d.).

The decline in new housing construction over the past half century has been concomitant with declines in church affiliation and attendance, as well as the suburbanization of houses of worship. The percentage of Americans who do not affiliate with a religion jumped from 3% in 1957 to 20% in 2012. Regular worship service attendance has declined from 40% in 1965 to 11% in the 2000s (Voas & Chaves, 2016, p.

1523). The suburbanization of houses of worship began in earnest following World War II. It was in part driven by an interest of white Americans to flee increasingly diversifying neighborhoods (Miller, 2017, p. 344). However, a similar trend was seen amongst Black Protestants. A study in Chicago found that in 1925, 92.31% of such congregations were in the city proper. By 1998-1990, the figure had dropped to 63.27% (Miller, 2017, p. 347). A similar trend was seen in Jewish synagogue construction in the post-WWII period (Sussman, 1985).

Throughout the country's history, religious institutions have played a role in the real estate landscape of the communities they serve. As of 2001, 18% of congregations were involved in providing some form of housing program, which includes both providing housing and helping those in need to seek housing (Avis Vidal, 2001, p. 7). On the other end of the spectrum are churches operating as for-profit landlords. A notable example of this is Trinity Church in New York City, which was reported in 2013 to own 5.5 million square feet of commercial real estate across 14 acres in Manhattan (Otterman, 2013).

These themes – a deepening housing shortage, a decline in religiosity, and a history of participation in real estate markets – present an opportunity. This paper sets out to explore how congregations, as well as non-profits and land banks which own former houses of worship, can engage in closing the housing gap. To that end, this paper defines this concept as “faith-based housing.” Because housing markets and histories vary drastically throughout the country, this paper focuses on federal level policy, and real estate concepts which are standard enough to be consistent across state lines.

1.2 Methodology

This paper is grounded in reviews of the existing literature on faith-based housing, American religious life, and real estate finance. Interviews were anonymously conducted with subject matter experts early in the research process in order to learn about the core mechanics of faith-based housing. This enabled the author to find relevant scholarly work to read and cite. To encourage candor regarding sensitive subjects and proprietary information, interviewees were guaranteed that no information which could be used to identify them would be included in this paper. Out of caution, no information that was obtained from these interviews was included in this paper, unless that information was already publicly available. News articles were utilized to provide examples of select construction formats of faith-based housing, but were not otherwise heavily relied upon in the researching of this paper. In addition, this paper makes use of the work of agencies of the U.S. government, including the Census Bureau and the Department of Housing and Urban Development.

This paper asks whether a policy emphasis on faith-based housing would be worthwhile as part of an effort to close the housing gap, particularly as it pertains to designated affordable housing. It is however worth noting that faith-based housing may bring about other benefits, though they are outside of the scope of this paper. One such example could be that a faith-based housing project might provide an additional platform for planners and local officials to go about community engagement. Another possibility is that the intangibles associated with historic preservation and community building might boost local civic pride. These examples, despite being near-impossible to quantify, may be inherently valuable. Should the United States go about building a significant amount of

faith-based housing in the coming decades, it would be worthwhile for urban planning professionals and scholars to investigate in retrospect these tertiary impacts.

Determining the value of faith-based housing in its ability to bring new units to market requires first addressing what faith-based housing is. This includes its financial mechanics, and relevant zoning law. These operations were then compared to privately owned multifamily housing. After providing real examples of faith-based housing in the United States, an overview is provided of the existing federal-level policy tools customarily found in faith-based housing projects. This extends into the conclusion, and a brief policy proposal.

2. FAITH-BASED HOUSING DEFINED

2.1 Characteristics

This paper bifurcates faith-based housing into two categories: active faith-based housing and passive faith-based housing. Examples of active faith-based housing would include converting a church into multifamily housing, building homes on lots which have been bequeathed to the organization, or greenfield development on lots adjacent to an existing church's facilities. The primary example of passive faith-based housing would be the renting out of homes which have been bequeathed to a religious institution. The distinction is that in the passive example, the church was not involved in causing new housing units to enter the market. As this paper is focused on leveraging faith-based housing as a tool to close America's housing gap, the term faith-based housing will be used to indicate an active strategy.

More nuanced distinctions arise when considering the extent to which a religious organization is involved in a faith-based housing project. A church with a dwindling congregation in a car-centric city may be interested in reducing the size of its parking lot and building apartments on the excess space. Though the congregation might like to retain ownership of the apartments, it may lack the capital needed upfront to have them constructed. In this situation, it may bring in a for- or non-profit developer as a partner. This allows the congregation to retain some ownership, as seen in the Emory United Methodist Church example in Section 2.5.

However, a congregation might instead seek to subdivide their land, and sell the excess space to a third-party developer outright. This could result in new housing units being brought to market, but prevents the religious institution's mission from participating in the long-term upside. Grace Brethren Church in San Diego embarked on such a project in 2017, when they sought approval to subdivide their property, and sell the remainder to a developer to build homes (*Grace Brethren Church in Clairemont to Subdivide Property | San Diego Reader*, 2017). They succeeded, and the homes can be seen under construction on Google Streetview as of February 2023 (*Google Maps: 3426 Atlas St, San Diego, CA*, n.d.). Other examples exist in a gray area, such as a community development non-profit holding a property that was previously owned by a congregation that has since dissolved or shrunk. Such is the case of the Arlington Presbyterian Church exemplified covered in Section 2.5.

Rather than parse out every possible format, this paper focuses on faith-based housing projects that are mission driven. This does not mean that a congregation must be directly involved, nor does it exclude market-rate housing development. It does however require that a mission driven organization such as a religious institution, non-profit, land

bank, community development corporation, or municipality, is a partner in the project in some form. This includes a situation where a land bank or similar entity sells land at a subsidized price in exchange for the guarantee of a mission-based objective, such as the inclusion of designated affordable units.

Finally, this paper solely pertains to faith-based housing in the United States from the 20th century onwards. While the history of such projects outside of the U.S. and prior to 1900 is vast and interesting, covering them would make the scope of this paper too broad. The primary reason for this is that real estate markets, regulatory environments, and religious worship patterns vary widely from country to country. Further, there is not an existing body of scholarly work comparing faith-based housing between countries. Notably, this entails excluding projects and research based in Canada. Canada shares with the United States a culture of declining religiosity, which has led to the adaptive reuse of religious structures in the country (Martin & Ballamie, 2016, p. 81-83). However, it is necessary to exclude Canadian projects and research from this paper because Canada's federal-level policy framework in this area is substantively different from that of the United States. At the federal level in the United States, the primary tools are the Low-Income Housing Tax Credit (LIHTC) program for affordable housing and the Historic Rehabilitation Tax Credit (HRTC) program for historic preservation.

2.2 Tax Exemption

Real estate owned by religious institutions is largely exempt from property taxes (*Tax Exemptions of Religious Property*, n.d.). Chapman states that this norm was set by Protestant settlers in the United States, and that "Catholic and Jewish Groups display the enjoyment of privilege from association, since church norms were set by the Protestant

colonizers” (Chapman, 1948, p. 444). This is to say that early in American history, Protestants responsible for setting cultural norms imported a bond between church and state. However, there is also a school of thought that church property must be tax exempt in order to maintain freedom of thought. This premise can become controversial, as it can be posited that by exempting religious institutions from property taxes, non-religious people, as well as those of different denominations, are forced to subsidize the operations of a religious entity (Tosun, 2020, p. 618).

This idea was tested by the Supreme Court of the United States in 1970 by *Walz v. Tax Commission of the City of New York* (1970). Walz, a property owner in Staten Island, New York, believed that New York State’s tax exemption for church owned land violated the Establishment and Free Exercise clauses of the First Amendment of the United States Constitution (*Walz v. Tax Comm’n of City of New York*, 397 U.S. 664 (1970), n.d.). These clauses state that “Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof (*U.S. Constitution / Constitution Annotated / Congress.Gov / Library of Congress*, n.d.).”

Property taxes are used to fund public services, some of which directly benefit a particular structure. Services such as road maintenance and fire protection allow a property to be accessible and safe, and are funded in part or in full in New York State by property taxes (*Property Taxes*, n.d.). Walz contended that the exemption provided for real estate used exclusively for religious purposes forced him to subsidize these benefits on behalf of religious institutions. The implication of Walz’s logic is that were religious institutions to pay property taxes, his tax burden would decrease (*Walz v. Tax Comm’n of City of New York*, 397 U.S. 664 (1970), n.d.).

In 1970, the Supreme Court ruled against *Walz*, holding that real estate tax exemptions for religious bodies do not violate the Establishment or Free Exercise clauses. The Court held that exempting churches from property taxes is requires less church-state involvement than taxing them. Chief Justice Burger, who authored the opinion, further noted that the intention of the framers was to prevent direct, active government sponsorship of a specific religion. Because the provision in New York State's constitution exempting religious institutions was uniform across all religions and denominations, it did not violate the First Amendment of the U.S. Constitution (*Walz v. Tax Comm'n of City of New York*, 397 U.S. 664 (1970), n.d.). Chief Justice Burger also cited an earlier case, *Zorach v. Clauson* (1952), which concerned whether students in public schools could be excused for part of the school day to partake in religious instruction or worship. Burger references a line from the *Zorach* decision which reads "The First Amendment, however, does not say that, in every and all respects there shall be a separation of Church and State" (*Zorach v. Clauson*, 343 U.S. 306 (1952), n.d.).

Though it was already the established norm, the precedent calcified by the *Walz* decision to allow states to exempt religious institutions from property taxes is crucial. Today, every state and the District of Columbia exempt religious institutions from real estate taxes for properties used for religious purposes (*Tax Exemptions of Religious Property*, n.d.). These exemptions are extremely valuable, in part because property taxes on average account for 22% of the operating expenses of multifamily housing (Goodman, 2004, p.243). This is further detailed in Section 2.3.

In addition to exemption from property taxes, religious institutions in many scenarios benefit from an exemption from federal income taxes. Income to a church is exempt from

federal income taxes unless it is subjected to the Unrelated Business Income Tax (UBIT). UBIT is levied when the income derived from a particular activity performed or asset owned by a church is not substantially related to the religious entity's activities. Unless there is an outstanding debt on the property or personal services are rendered in connection with it, income derived from rental property owned by a church is not subject to UBIT (*Tax Guide for Churches and Religious Organizations*, n.d., p. 20).

2.3 Zoning

When considering a zoning framework that applies to church owned land, a municipality must balance its own police powers with the first amendment rights of congregations. This is due to the language of the First Amendment of the United States, which reads in part that the government “shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof” (*U.S. Constitution - First Amendment | Resources | Constitution Annotated | Congress.Gov | Library of Congress*, n.d.). This section details situations where religious liberty, zoning, and the judicial system intersect.

Government bodies in the United States derive their police powers from the Tenth Amendment of the U.S. Constitution (*U.S. Constitution | Constitution Annotated | Congress.Gov | Library of Congress*, n.d.). The Tenth Amendment puts forth that powers not explicitly provided to the federal government become the purview of the states. States are thus afforded the right to create and enforce regulations in their jurisdictions pertaining to public welfare, including issues of safety, health, and morality (*State Police Power and Tenth Amendment Jurisprudence | Constitution Annotated | Congress.Gov | Library of Congress*, n.d.).

It is from these police powers that the modern origins of zoning were derived, in U.S. Supreme Court case *Village of Euclid v. Ambler Realty Co.* This case formalized the notion that municipalities have the right to limit mapped districts to certain uses or groupings of uses, unless “such provisions are clearly arbitrary and unreasonable, having no substantial relation to the public health, safety, morals, or general welfare” (*Village of Euclid v. Ambler Realty Co.*, 272 U.S. 365 (1926), n.d.). In the broadest sense, this means municipalities can typically create exclusive districts for residential, commercial, and industrial uses should they so choose. These may be further stratified, resulting, for example, in single-family housing only districts (Williams, 1956).

This concept, that the government can prevent uses for the public benefit, is inherently in contention with the roots of religious freedom baked into the founding of the United States. Were the First Amendment not in play, the result may well have been that houses of worship would only be found in districts zoned explicitly to allow for them. This is not the case, however, because religious institutions are treated differently in the context of zoning. To prevent the government from hindering the free practice of religion, church real estate assets which constitute religious uses are given differential treatment. These uses are not solely those used for religious services and instruction. Other mission related uses – referred to as accessory religious uses – are also allowable when they are “on the same property as the primary use” and do not “alter the characteristics of the surrounding community” (Maher, 1997, p. 326). Examples “may include homeless shelters, day care services, and retreat centers (Maher, 1997, p. 326).

This opens up questions pertaining to housing. In a case cited by Maher - *Catholic Charities of the Roman Catholic Diocese of Syracuse v. Zoning Board of Appeals of the*

City of Norwich – a church property had been used as a convent for nuns. Later, the property was purchased by and converted into a residential program for domestic violence survivors. When the operator sought a certificate of occupancy from the City, it was denied, claiming that the new use was more intensive than what was allowed under its definition of an R-1 residential district. However, the Supreme Court of New York found that the operator’s use was lawful, because the operator was engaging in non-profit activities while aligned and collaborating with the mission of a religious organization (Maher, 1997, p. 317).

This premise also becomes relevant when considering places of home worship. This occurs when a homeowner wishes to use a portion of their home as a space for communal worship. Neighboring homeowners may contend that adding a religious use in their neighborhood creates a nuisance. This could be the result of heavier traffic, noise, or use of infrastructure. In *LeBLANC STERNBERG v. The Village of Airmont*, a town council refused to provide a permit for the construction of such a facility (*LeBLANC STERNBERG v. The Village of Airmont, Defendant-Appellee. (1998)*, n.d.). That the Village of Airmont sought to prevent home worship does not make it unique amongst municipalities (Wehener, 1993, p. 491).

One result of zoning constraints pertaining to home churches was the United States Congress passing the Religious Freedom Restoration Act in 1993. Prior to the Religious Freedom Restoration Act, the standard was that a church could be prevented from building a desired use if the ordinance preventing said use was neutrally applied (Maher, 1997, p. 315). Following passage of the law, the new standard was that a governing body needed to prove that preventing the construction of such a use served a compelling interest, and further, that they did so only in the manner that least restricted religious freedom (Rep. Schumer, 1993).

Initially, the law prevented government entities at both the federal and state levels from substantially interfering with the free practice of religion (Rep. Schumer, 1993). This applied to municipalities in the context of zoning because municipalities typically receive their ability to zone from their respective states in the form of a state zoning enabling act (Kim, 2021, p. 126). However, in 1997, the U.S. Supreme Court ruled in *City of Boerne v. Flores* that the Religious Freedom Restoration Act could only be applied to federal government agencies (*City of Boerne v. Flores*, 521 U.S. 507 (1997), n.d.).

The case pertained to a Catholic diocese in Texas that was seeking a permit to enlarge a particular church. The municipality denied the permit because it felt the expansion would disrupt the nature of a historic neighborhood. The U.S. Supreme Court found that the municipality's denial of the permit did not violate the Religious Freedom Restoration Act, because the state-focused components of the Act were themselves unconstitutional (*City of Boerne v. Flores*, 521 U.S. 507 (1997), n.d.). Thus, the municipality was within its police powers to deny the permit in order to protect what it deemed to be in the interest of public welfare.

Despite this, accommodations are often provided to religious organizations seeking to build. A church wishing to demonstrate that their proposed accessory use is in fact an accessory religious use can strengthen their argument by showing that the secondary use is customarily found on other church owned properties. As noted earlier, mission-oriented uses such as homeless shelters and soup kitchens tend to be considered as accessory religious uses (Maher, 1997, p. 326).

Churches seeking the ability to build in violation of existing zoning ordinances may do so by applying for special use permits or variances. Special use permits are granted by

municipalities when allowing for a noncompliant use will be in the interest of the public good. As found by Maher:

A special use permit may not be denied for a religious use on the basis of being contrary to the public welfare unless it can be demonstrated that the religious use “will have a direct and immediate adverse effect upon the health, safety or welfare of the community.” (Maher, 1997, p. 329)

Typically, variances are only granted when the applicant can demonstrate that an unnecessary hardship would be the result of it not being granted. However, religious organizations are often not held to this standard (Maher, 1997, p. 335).

2.4 Impact of Property Tax Exemption on Multifamily Returns

There are many ways to measure the financial health of a real estate asset. This paper focuses on two metrics: value and internal rate of return (IRR). Several methods exist to determine the value of a property, including performing a comparable market analysis, the discounted cash flow model, and finally, the capitalization rate method, also referred to as the investment/income capitalization method. This paper uses this final method, as it provides ease when comparing asset characteristics at a high level. Under the capitalization rate method of valuation, value is calculated by dividing the net operating income by a capitalization rate. The capitalization rate can be thought of functionally as an earnings multiple factor. If the capitalization rate for an asset class in a given geography is 5%, which equates to one-20th, the value of the property is its net operating income multiplied by 20 (Pagourtzi et al., 2003, p. 388).

To determine the difference in valuation of a multifamily asset owned by a for-profit investor as compared to a church, one starts by selecting an appropriate capitalization rate. CBRE, a major real estate brokerage in the United States, lists 4.92% as the current national average capitalization rate for multifamily (*July Rate Hike Pushes Up Prime Multifamily*

Cap Rates in Q3, 2023). This paper will hold said capitalization rate constant for both church-owned and non-church owned multifamily assets.

The next step is to define net operating income for both properties. Goodman's research, which set forth that property taxes compose 22% of operating costs, will be used in order for this paper to remain internally consistent.

Table 2.4-1 – Representative Multifamily Revenue & Expenses

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Table 2
Income and expense estimates for 1999 from the NAA survey ($n=2133$; figures are for market rate apartments in structures of 1 to 3 floors)

	Mean	Median	SD	Minimum	Maximum
Residential rental revenue					
Per unit per month (\$)	608	582	175	242	2194
Operating expense					
Per unit per month (\$)	252	243	64	79	762
Component costs (\$ per unit per month)					
Salaries	63	62	18	0	285
Insurance	7	6	4	0	81
Taxes	56	51	31	1	312
Utilities	36	34	18	0	236
Management fee	24	25	12	0	153
Administrative	12	10	13	0	275
Marketing	12	11	7	0	90
Contract services	21	19	10	0	111
Repair/maintenance	21	18	14	1	159
Capital expenditures					
Per unit per month (\$)	46	36	45	0	482

Source. Author's tabulations of data from the National Apartment Association.

(Goodman, 2004, p.243)

In a continuation of the process outlined in the prior two paragraphs, the next step is to pull out the data from the mean column, and build a simple model which compares this sample mean property to an identical property, less the taxes. These monthly figures must be converted into annual figures as well, because the capitalization rate method is worked out annually. Capital expenditures can be ignored as they do not affect net operating income. The individual dollar per unit per month estimates are unimportant in isolation. However,

this paper assumes that taken together, they represent reasonably well the proportions of operating costs as compared to revenues for multifamily housing units.

Table 2.4-2 – Per Unit Values as Function of Capitalization Rate

	Goodman assumptions \$/unit/month	For-profit owned \$/unit/year	Church owned \$/unit/year
Residential rental revenue	608	7,296	7,296
Salaries	63	756	756
Insurance	7	84	84
Taxes	56	672	-
Utilities	36	432	432
Management fee	24	288	288
Administrative	12	144	144
Marketing	12	144	144
Contract services	21	252	252
Repair/maintenance	21	252	252
Operating expense	252	3,024	2,352
Net operating income	356	4,272	4,944
<i>Capitalization rate (CBRE)</i>		<i>4.92%</i>	<i>4.92%</i>
Value (NOI/cap rate)		86,829	100,488
<i>Increase in value</i>			<i>15.73%</i>

(The table above was developed in Microsoft Excel by the author by building upon data in Goodman's 2004 work)

The result is that by eliminating property taxes while holding all other variables constant, the value per unit increases by 15.73%.

These assumptions and calculations can underpin the building of a simple model that will allow for the IRR for each ownership scenario to be tabulated. The author began the construction of this model by blending the annual figures from Table 2.3-2 with Goodman's capital expenditure assumption to create Year 1 in the model. This includes \$86,829 as the purchase price per unit, which is represented as a negative number in the model. Growth

assumptions of 3.50% for revenue and 2.50% for expenses – inventions of the author – are used to forecast operations for the following ten years. The last of these years, Year 11, is used to calculate a hypothetical sale price at the end of Year 10 (Goddard & Marcum, 2012, p. 171). After summing cash flows and calculating their IRR, the final step is to create a modified sum of cash flows that removes property taxes from consideration.

The resulting model is as follows:

Table 2.4-3 – Per Unit IRR as Function of Capitalization Rate

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Residential rental revenue	7,296	7,551	7,816	8,089	8,372	8,665	8,969	9,283	9,607	9,944	10,292
Salaries	756	775	794	814	834	855	877	899	921	944	968
Insurance	84	86	88	90	93	95	97	100	102	105	108
Taxes	672	689	706	724	742	760	779	799	819	839	860
Utilities	432	443	454	465	477	489	501	514	526	540	553
Management fee	288	295	303	310	318	326	334	342	351	360	369
Administrative	144	148	151	155	159	163	167	171	175	180	184
Marketing	144	148	151	155	159	163	167	171	175	180	184
Contract services	252	258	265	271	278	285	292	300	307	315	323
Repair/maintenance	252	258	265	271	278	285	292	300	307	315	323
Operating expense	3,024	3,100	3,177	3,257	3,338	3,421	3,507	3,595	3,684	3,777	3,871
Net operating income	4,272	4,452	4,639	4,833	5,034	5,244	5,462	5,688	5,923	6,167	6,421
Capital expenditures	(552)	(566)	(580)	(594)	(609)	(625)	(640)	(656)	(673)	(689)	
Purchase Price	(86,829)										
Reversion Value										130,503	
Unlevered Cash Flow	(83,109)	3,886	4,059	4,238	4,425	4,619	4,822	5,032	5,250	135,981	
Unlevered IRR	9.70%										
Unlevered Cash Flow less Taxes	(82,437)	4,575	4,765	4,962	5,167	5,380	5,601	5,831	6,069	136,820	
Unlevered IRR excluding Taxes	10.58%										
IRR Difference	0.88%										
IRR Percentage Difference	9.06%										

(The table above was developed in Microsoft Excel by the author by building upon data in Goodman's 2004 work)

The model must calculate IRR figures on an unlevered basis, meaning without taking financing into account. This is necessary in order to make fair comparisons, as financing terms are not inherent to a given property, and have much to do with the financial

characteristics of the borrower (Giambona et al., 2014, p. 579). The result is an IRR that is 9.06% higher on a percentage basis for an investor that does not need to pay property taxes as compared to one that does.

2.5 Construction Formats

There are numerous ways in which faith-based housing development can take shape physically. This paper refers to these variations, which primarily pertain to whether or how existing improvements are used, and which entity or entities retain ownership, as construction formats. The simplest method is also perhaps the least expected. A church with a dwindling congregation may choose to have their building demolished to make room for new, ground-up housing development. This could also occur if the congregation built a new facility at a different location, and is looking for a way to dispose of their old one. A recent example of this is that of Arlington Presbyterian Church (APC) in Arlington, Virginia, which was founded in 1908 (*Arlington Presbyterian Church: History*, n.d.).

By 2016, the congregation had seen its attendance drop significantly, and was no longer fully utilizing its space. As a result, APC sold its property to the Arlington Partnership for Affordable Housing (APAH) for \$8.5 million, on which APAH built 173 affordable apartment units. These units are reserved for those at or below 60% of area median income (*To Stem the Housing Crisis, Religious Congregations Are Building Homes* | *AP News*, 2023). The congregation now operates out of a suite within the apartment building (*Arlington Presbyterian Church: History*, n.d.). This was a successful outcome in the view of the author, in that a local congregation could be maintained sustainably while simultaneously helping those in need and increasing housing density.

Figure 2.5-1 – Arlington Presbyterian Church Prior to Razing



(Google Maps: 918 S Lincoln St, Arlington, VA, 2016)

Figure 2.5-2 – Apartments that Replaced Arlington Presbyterian Church Prior



(Google Maps: 918 S Lincoln St, Arlington, VA, 2019)

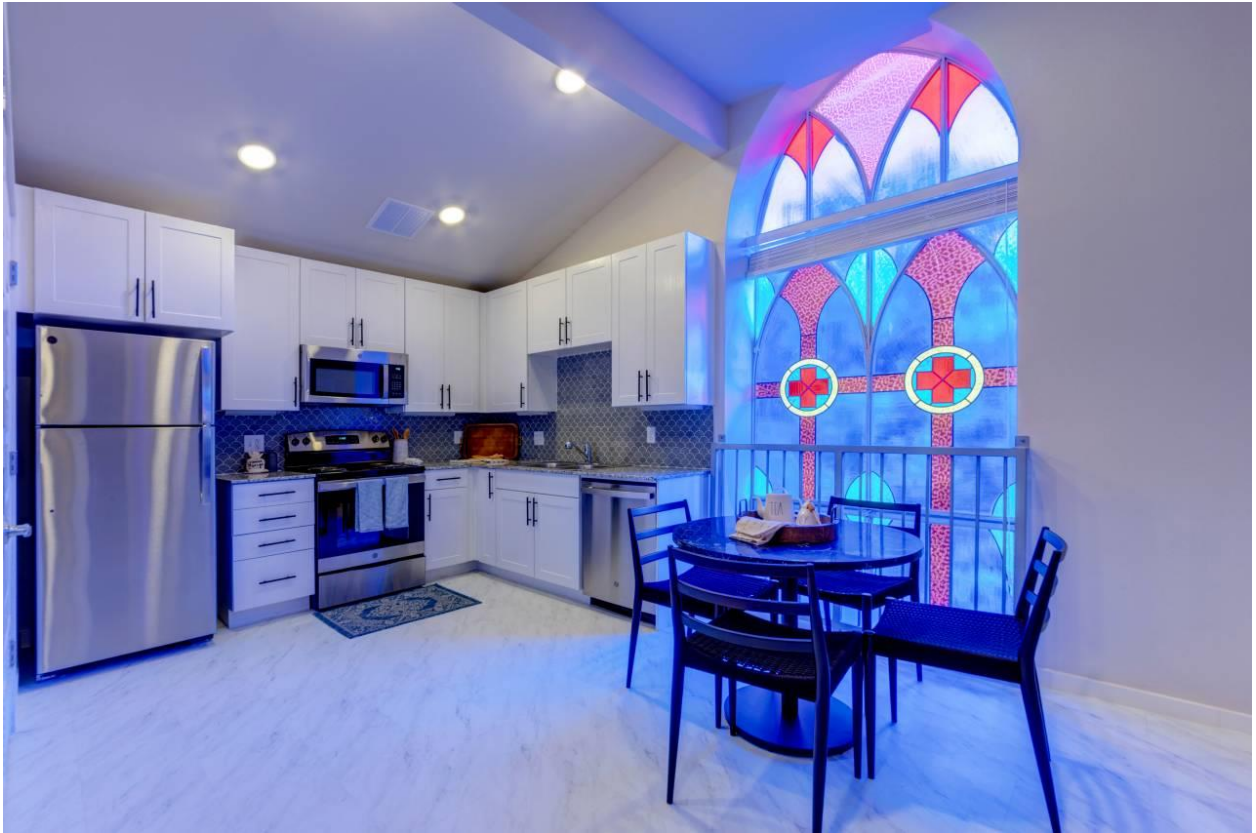
Another approach to faith-based housing is adaptive reuse. The advantage of this method is that it allows for the historic preservation of a structure, despite its use as a house of worship no longer being tenable. In some cases, the congregation breaks fully from the land after it has been sold, as was the case with Riverside Baptist Church in Fort Worth, Texas. The 1924 structure was sold to a third-party, which in turn sold it to a private developer, Saigebrook Development, in 2018. Saigebrook constructed 91 units, 80 of which were designated as affordable housing, for \$22 million. \$15.1 million was sourced through low-income housing tax credits (Kimura, 2020).

Figure 2.5-3 – Riverside Baptist Church, Exterior & Interior



(Innovates & Edwards, 2021)

Figure 2.5-4 – Riverside Baptist Church, Sample Room after Reconfiguration



(Cielo Place Apartments - Affordable Living in Fort Worth, TX, n.d.)

The final method this paper covers is appurtenant development. This refers to building on un- or underused space adjacent to a church that will continue to operate. In 2019, Emory United Methodist Church in Washington, DC embarked on such a project when they renovated their core worship facility, and built a cluster of community assets around it (Reinhard, 2023). The campus now includes 99 apartment units, a food pantry, and an immigration clinic, amongst other services. In addition to \$16 million in low-income housing tax credits, the project received a \$17.2 million subsidy and \$21.6 million in bonds from municipal agencies of the District of Columbia (*A Ward 4 Church Made It Possible to Build 99 New Units of Affordable Housing*, 2019).

Figure 2.5-5 – Emory United Methodist Church



(Reinhard, 2023)

None of these construction formats are inherently right or wrong, but their diversity does demonstrate how challenging it is to measure national or even regional faith-based housing trends. These projects span several real estate continuums, including: for- versus non-profit, adaptive reuse versus ground-up development, urban versus suburban, and others still. While this paper certainly promulgates the view that faith-based housing is a net positive for society, there may well be challenging to identify negative impacts.

3. POLICY

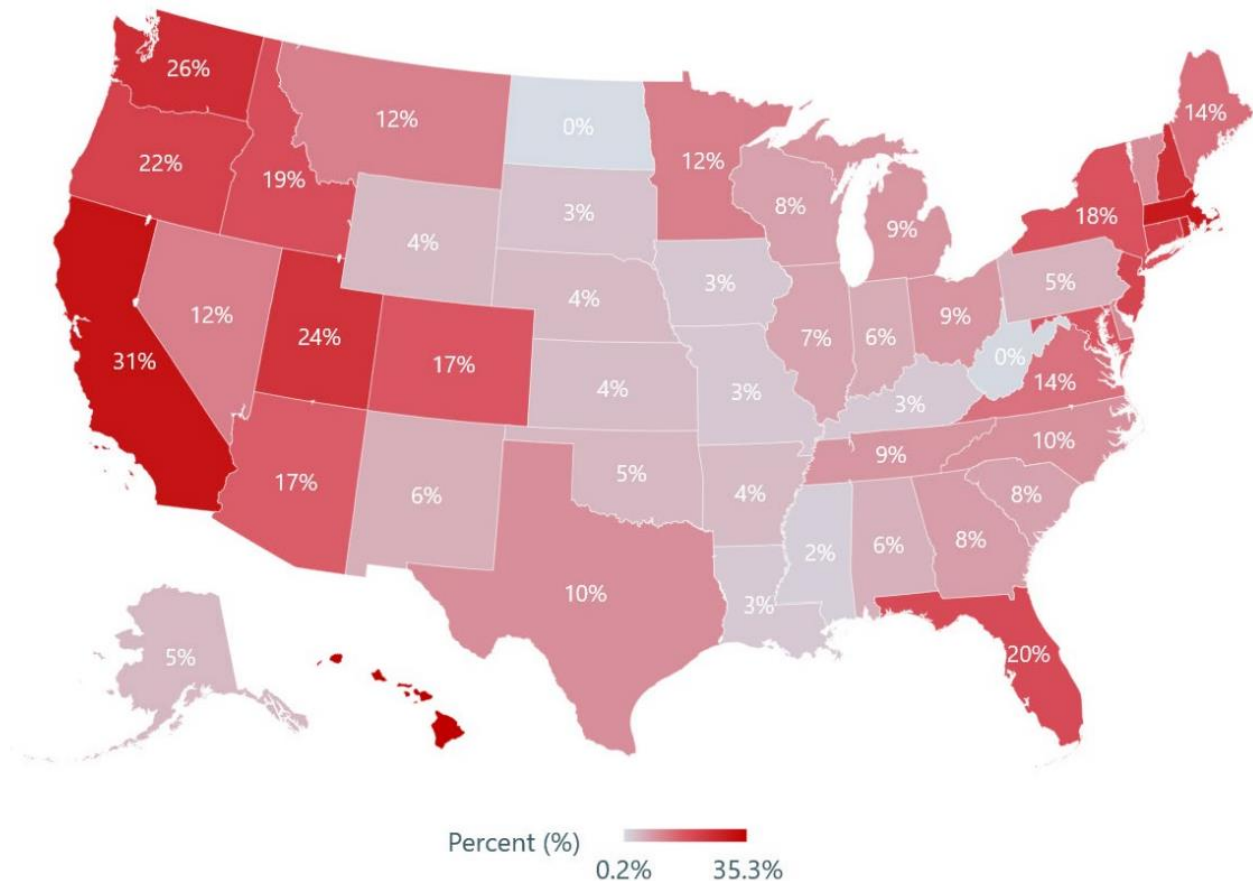
3.1 Measuring the Housing Shortage

As stated earlier this paper, the United States is in the throes of a housing shortage, with Fannie Mae estimating a shortfall of 3.8 million units (*U.S. Housing Shortage*:

Everything, Everywhere, All at Once | Fannie Mae, 2022). However, this metric does not tell the whole story, in part due to the unevenness of its distribution throughout the country. One major driver of this is the varying stringency of regional regulatory environments pertaining to housing construction. Metropolitan areas with less stringent regulatory environments, as defined by the Wharton Residential Land Use Regulation Index, see smaller housing shortages on a percentage basis than those with more stringent regulatory environments (Corinth & Dante, 2022, p. 4).

One way to visualize this phenomenon is by considering the housing shortage as a percentage of total housing stock on a state-by-state basis, as has been done by Corinth and Dante:

Figure 3.1-1 – Housing Shortage as Percentage of Housing Stock by State



(Corinth & Dante, 2022, p. 11)

The figure above addresses the housing shortage from a supply perspective, but there is another major constraint to consider: affordability. The National Bureau of Economic Research (NBER) found the following:

Since 1970, the percentage of households facing “extreme” (over 50 percent) housing affordability burdens rose from 16 to 28 percent, while the share facing “moderate” (over 30 percent) burdens rose from 30 to 53 percent. The median expenditure share devoted to rent rose from 20 to 31 percent in that time. (Albouy et al., 2016, p. 23)

The authors of the NBER report attributed these findings to a variety of factors, and included a disclaimer that the factors they could measure only explained 70% of the increase

in housing affordability burden. It did, however, identify increases in inflation-adjusted average incomes and average rents to be the largest driving factors. Counterintuitively, income increases can drive unaffordability. This occurs when there is an inequality in the distribution of income gains amongst homeowners and renters. Because income gains have disproportionately favored homeowners, increases in housing costs have an excess negative impact on renters. The result is that rent increases offset a higher proportion of the income gains of renters than home ownership cost increases offset the income gains of homeowners (Albouy et al., 2016, p. 25).

3.2 Existing Tools

The United States does not have policy measures at the federal level specifically targeted towards faith-based housing. However, there are a couple of federal tools which are customarily used in faith-based housing projects. One of them is the use of low-income housing tax credits when a set minimum proportion of units are to be designated affordable. The other is historic rehabilitation tax credits, which can be relevant when, for example, preserving the façade of a church. Both are forms of tax credit syndication. A project that has won tax credits can sell them to private investors. The private investors are then able to use the credits “to offset their income tax liabilities” (Kneebone & Reid, 2021, p. 5).

The Low-Income Housing Tax Credit program, also referred to as LIHTC, was established by Section 252 of the Tax Reform Act of 1986 (Rep. Rostenkowski, 1986). The federal government sets a funding amount each year – roughly \$9 billion in 2020, for example – and allocates these dollars to the states. The states then create their own criteria for how to award the credits. Projects that apply for the credits and win are then able to sell the tax credits, either directly or through third-party syndicators, to private investors. In

return for being allowed to use tax credits in their capital stacks, the project must adhere to the affordable designations it set forth in its application (Mehta et al., 2020, p. 77-79).

The Historic Rehabilitation Tax Credit (HRTC) program grew from two pieces of legislation: the 1976 Tax Act and the Economic Recovery Tax Act of 1981 (*The Contributions of Historic Preservation to Housing and Economic Development*, 2010, p. 446). The credits are reserved for projects on structures designated as historic by the National Park Service (*About the Incentives - Historic Preservation Tax Incentives* (U.S. National Park Service), n.d.). The credits can only be used against 20% of qualified expenses on a given project (*20% Tax Credit Basics - Historic Preservation Tax Incentives* (U.S. National Park Service), n.d.). The notable implication for this as it pertains to faith-based housing is that costs associated with converting a church into housing, if not also directly tied to a historic element, such as a façade or stained glass windows, are not eligible (Internal Revenue Service, n.d.).

It is worth mentioning that there is a notable policy option – tax abatements – which is handled at the local level. Some municipalities attempt to incentivize developers to build housing in certain areas by offering a waiver of property taxes for a set period of time. In New York City, for example, the 421a program promulgates housing development by offering 15-year tax abatements. However, under New York City’s scheme, longer abatements can be made available if the developer agrees to make 20% of the units affordable (Freeman & Schuetz, 2017, p. 223). As a result, tax abatements in New York City have been estimated to be responsible for 2,100 affordable housing units constructed per year (Freeman & Schuetz, 2017, p. 226). Tax abatements may be relevant to promoting faith-based housing when a private developer owns the project. However, they are less likely

to play a major role when a religious institution wants to remain as the project sponsor, as they are already exempt from property taxes (*Tax Exemptions of Religious Property*, n.d.).

4. Proposal & Conclusion

This paper establishes that there is indeed a housing shortage in the United States, both in terms of the raw shortage of units needed, and the lack of appropriately priced units for middle-income Americans. In addition, it sets forth that there is potential in churches and other religious institutions to build faith-based housing as one small way to help to close this gap. However, the extent to which faith-based housing can be leveraged to build more affordable housing specifically is unclear. This is because the federal government fixes the number of affordable housing tax credit dollars available per year (Mehta et al., 2020, p. 77). Despite this, church involvement in affordable housing development may enable those credits to go further.

For example, suppose a religious institution is interested in contributing their land at a highly subsidized or even \$0 basis, contingent upon it being used for affordable housing. Because LIHTCs can be used for land acquisition costs, this would lower the overall cost of capital (Green et al., 2002, p. 6). As a result, fewer LIHTC dollars would be needed for the given project, thus in theory freeing them up for others. This positive impact may be limited in that it is not uncommon for other entities, such as land banks, to also seek to ensure land is made available for affordable housing (Bollwahn, 2019, p. 13). A program with the Detroit Land Bank Authority for example offers developers a defined 50% discount on land purchases “that solely further a nonprofit purpose of the Community Partner” (*Community*

Partnership - English, n.d.). In other words, any non-profit affordable housing developer can receive a 50% discount on land if they purchase it from the Detroit Land Bank Authority.

The policy solutions designed to mitigate the housing crisis, such as LIHTC, HRTC, and tax abatements, share something in common: complexity. This complexity is at odds with the mission of building specifically affordable housing on church-owned land, and preserving religious architecture. The HRTC program misses the mark, because it cannot be used towards interior reconfigurations (Internal Revenue Service, n.d.). LIHTC too is insufficient, as the process artificially caps the number of affordable housing units that can be financed in any given year (Ballard, 2003, 217). Because the annual number of credits is fixed, faith-based housing built with LIHTC will to some extent prevent non-faith-based LIHTC projects from being built. Finally, tax abatements are not of help if the religious organization wants to remain involved, as they are already largely exempt from paying property taxes (*Tax Exemptions of Religious Property*, n.d.).

For these reasons, it is the position of this paper that the United States Congress pass legislation enabling a new form of tax credit syndication for congregations wishing to build affordable housing on their property. This would serve to preserve religious architecture, particularly that of structures that are not designated as historic. In addition, it would enable churches to build affordable housing without edging out the construction of other projects. Churches and other congregations, for the most part, lack the sophistication to compete for LIHTC and HRTC credits on their own. If the federal government sees it in the public interest to preserve aspects of their facilities, and build more affordable housing, the need is clear for a new policy tool specific to faith-based housing.

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