

Q & A: KOG RENTAL PROPERTIES

BRIEF HISTORY

During 2010 through 2012, KOG purchased six houses (W2-W7) west of KOG to build a parking lot to replace the parking spaces lost between KOG and the frontage road during the widening of IH-635. These houses were purchased with proceeds from the condemnation of KOG's frontage property. During 2014, houses W2-W5 were demolished and the parking lot expansion was completed. Houses W6 and W7 were retained as rental properties (6406 and 6410 Clubhouse Circle, respectively). The sale of W7 was approved and finalized in 2019. We also own the house at E1 (also a rental property) and the lot at E3.



Why did we purchase W6 and W7 if we did not convert them into a parking lot?

We owned W4 and W5 when W6 and W7 came available. At that time, the owners of W2 and W3 were seeking a sales price that exceeded our target range. We purchased W6 and W7 for the parking lot, but the neighborhood was very resistant to rezoning W4-W7. When the prices for W2 and W3 came down, the neighborhood was amenable to our expanding out W2-W5. Once we were not able to use W6 and W7 for the parking lot, we chose to retain these locations for rental income.

How much rental income do the two houses generate?

The two rental properties generated net income of \$14,000 in 2020, after spending approximately \$7,000 on repairs. This does not include the cost of KOG staff time spent on oversight and related maintenance efforts.

In 2021 without regard for maintenance and repairs, W6 and E1 are expected to net \$15,000 and \$5,000, respectively. This is a yield of less than 4% on estimated market value. This level of income is the "best case:" 100% occupied and no repairs.

What have we done with the rental income and the sale of W7?

Rental income has largely been used to offset the cost of the parking lot and to repair and maintain the rental properties. In 2016 and 2017, a total of \$28,000 supplemented church operations.

The proceeds from the sale of W7 were used to pay off debt (\$260,000) and to start a capital improvements fund (\$112,000).

How much is W6 worth?

We estimate W6 is worth \$380,000 to \$420,000 and expect to list the house for \$420,000. However, we will work with a broker to determine these amounts. (We purchased the house for approximately \$375,000 in 2011. This implies an appreciation rate of approximately 1 percent per annum from our initial purchase.)

Who handles the rental operations?

One year ago we retained a property management company for leasing the property. This company handles the general rental and billing for W6 for 8% of the rental fees. Any basic repairs that need to be made to the house are billed at a markup to the cost of materials.

Why should we sell W6?

We have already satisfied the original objectives for parking expansion that were envisioned through the purchase and conversion of lots W2-W5. These lots continue to offer capacity of up to 100 vehicles and are typically less than 20% utilized on any given Sunday. There is considerable capacity for future attendance growth without concern over capacity.

Lot W6 is not needed for the continuing mission of KOG and ties up resources that are better applied to the long-term maintenance and upkeep of our core congregational facilities and or future capital expansion efforts. Lot W6 does not offer potential use for anything other than as a residential unit. KOG cannot alter the use of the property from residential without rezoning, which the neighborhood has historically resisted and would be expected to continue this position. Maintaining the house as a rental property does not advance our mission “to be and to make followers of Christ who boldly share the grace of God with the world.”

We believe there are more important and immediate applications of staff time and capital resources to improve and preserve the primary operating assets of KOG. Based on the modest property appreciation and the limited cash flow W6 has generated after taxes, management fees and maintenance, it does not represent the highest and best use of KOG’s resources (capital or talent).

Will selling this house preclude KOG from expanding physically in the future?

Currently KOG has ample capacity for growth, both in terms of accommodating Sunday worship and related parking. KOG's current footprint is well positioned for a meaningful increase in worship attendance well above historic levels and event-related activities. We currently maintain a meaningful presence on the East side of the property and are well positioned to act on this when KOG reaches a point that merits an increase in our physical location. As it stands, zoning restrictions and likely neighborhood resistance limits the value that lot W6 offers in this capacity. Selling W6 is not being proposed out of expediency. Rather, selling W6 is in keeping with our efforts to ensure that God's resources are supporting our core mission, as well as maintaining congregational assets that are used in that mission.

What would we do with the proceeds of the sales?

Based on a list price of \$400,000, we would expect to realize \$350,000 from the sale of W6. The church plans to hold these funds in reserve for capital improvements. They could be retained locally or provided to the King of Glory Foundation for investment until such time as KOG calls upon these proceeds for future needs.

As a reminder, we established a KOG Facilities Committee to ensure that we are wisely and efficiently using our operating and capital funds. This committee is also developing a long-term maintenance plan to ensure that we are properly addressing our maintenance needs on an annual basis.