

City churches reap real-estate cash: Downtown congregations are striking deals with developers

by [Kevin Eckstrom](#) in the [May 16, 2006](#) issue

Robert Brashear, a New York City pastor, rubs his fingers against the 117-year-old walls of his church, and a shower of red dust sprinkles the sidewalk. Above him, scaffolding protects pedestrians from falling 20-pound chunks of sandstone.

Inside, water stains line the walls and cracks trace the barrel-vaulted ceiling of Brashear's West-Park Presbyterian Church on Manhattan's Upper West Side. Brashear estimates that repairs would cost at least \$10 million.

There are, he says with a sigh, "no resources to cover that kind of expense" in a 100-member church. But like so many other urban pastors, Brashear has seen his financial salvation—and it's coming out of thin air.

The open space—or air rights—above Brashear's church will soon be sold for about \$15 million to a developer who will erect a 21-story condominium complex that cantilevers over the back of the church. The new building will include church meeting rooms, 40 low-income housing units and 40 market-rate condos. Once repairs are paid for, Brashear hopes to invest the remaining funds.

From New York to Seattle, downtown congregations are striking deals with developers—deals worth tens of millions of dollars. Those willing to sell are often mainline Protestant congregations saddled with aging buildings, growing deficits and shrinking memberships.

While a red-hot real-estate market has cooled considerably in recent months, industry veterans say the church trend remains strong, especially in revitalized cities where the supply of condominiums and office space has not caught up with demand.

In many large cities, air rights can be bought and sold. A church that doesn't reach the maximum height allowed by zoning laws can sell the unused space above its roof to a developer, who can transfer that space to an adjacent building. Such churches can make millions off a "vertical asset" that would otherwise go unused.

The result is unexpected "manna from heaven" for some churches, said M. Myers Mermel, a real estate broker and member of Christ Church United Methodist in New York, which negotiated a \$30 million air rights deal in November.

While proceeds have replenished bank accounts, expanded social outreach and breathed new life into aging sacred space, the high-stakes transactions can be risky for clergy and congregations unprepared for the cutthroat world of real-estate development.

In places like New York, Chicago and Washington, where the only place to go is up, low-rise churches are attractive targets. Increasingly, developers are willing to pay top dollar not just for land, but also for the air above a church's roof.

"The cities with the hottest real-estate markets and [sale of air rights] will be the places where the phenomenon sticks out the most," said Richard Peiser, professor of real-estate development at Harvard's Graduate School of

Design.

Consider a few examples of churches striking real-estate gold:

- In Chicago, a 60-story condo tower will rise above St. James Episcopal Cathedral in the heart of the city's Magnificent Mile area. St. James will sign a 120-year lease on its land in a deal worth at least \$10 million. Fourth Presbyterian Church in Chicago has explored a similar venture, though approval by the city is uncertain. "In an urban area, air rights are just as much an asset as a piece of property," said John M. Buchanan, pastor of the 5,400-member Fourth Presbyterian and editor-publisher of the *Christian Century*.
- In the shadow of New York's Empire State Building, the quaint Episcopal Church of the Transfiguration razed its parish house and sold its air rights for a 55-story luxury condo building that will net about \$7 million for the congregation. Uptown, the Episcopal Cathedral of St. John the Divine is planning two education and residential projects that the *New York Times* estimated will generate at least \$40 million over the next 20 years.
- In Seattle, the terra-cotta domed roof of First United Methodist Church will soon make way for a high-rise office tower. Church officials say they can't maintain the 1910 building and would prefer to spend money on outreach to the homeless. The *Seattle Times* estimated the deal is worth about \$30 million.
- In Washington, the city's insatiable housing market prompted St. Luke's United Methodist Church to sell part of its land to a developer who built condos that sell for up to \$2 million each. The church made about \$6 million on the deal, said pastor David Myers; it now plans to fund a homeless shelter and feeding program. Without the infusion of cash, Myers said, his small congregation probably would have closed its doors.

Traces of the trend can be found in smaller cities as well. In Sarasota, Florida, First United Methodist Church was offered \$17 million for its downtown property that abuts a new residential/retail complex. The church, however, turned down the deal after "sentimentality ruled the day," said copastor Art McClellan.

Some churches retain space for themselves in the new projects, but many of the high-rise condos, offices and hotels being constructed have little direct connection with the church beyond a shared address.

On Manhattan's tony Park Avenue, the Byzantine-style Christ Church United Methodist is dwarfed by high-rise apartment buildings on the corner of East 60th Street. The 70,000 square feet of air rights above the church are considered developable space, even though the church has no plans to build up.

The unused vertical space sold for \$430 a square foot—twice the going rate in New York's competitive real estate market—and brought in \$30 million for the church. The money will fund a number of ministries, including an "adopted" public school in the South Bronx.

The real-estate boom that began in the late 1990s has encouraged more churches to consider development, but some of the biggest deals started decades ago.

The prototype is St. Peter's Lutheran Church in midtown Manhattan, which sold its 1905 church on Lexington Avenue in 1970 to make way for a 59-story Citicorp tower. A new street-level church for St. Peter's was carved out below the tower's four massive support columns.

St. Peter's entered a condo agreement with Citicorp and was paid \$9 million. The deal literally put St. Peter's on the map—as well as in New York tour books—and made it a signature building, said the pastor, Amandus Derr.

"St. Peter's would have gone the way of a lot of other churches in town," Derr said in his airy office that looks out onto the hustle and bustle of East 54th Street. "It would have slowly died off and moved away and would be

a shell of what it is today.”

Catholic churches have gotten in on the game—St. Paul’s Catholic Church near New York’s Lincoln Center negotiated two air-rights deals in 1984 and 1998 worth about \$35 million, for example.

But the most active players appear to be mainline Protestant churches, including Episcopal, United Methodist, Presbyterian and Lutheran congregations. Unlike Catholic churches where bishops and cardinals have the final say, the semi-independent status of mainline congregations allows them to play the market more freely.

“I think what is happening is mainline churches are having to do some self-examination about where we’re going,” said Cindy Voorhees, a Los Angeles Episcopal priest and church consultant who has studied the trend.

The decision to deal often flows from necessity. “Generally speaking, [churches are] usually not looking at those opportunities unless there’s some economic pressure to do so,” said Michael Slattery, research director for the Real Estate Board of New York.

Still, on New York’s Upper East Side, the Episcopal Church of the Epiphany hopes to bulldoze its Depression-era building and replace it with a 25-story residential condo development that will include space for a new church.

“We’re not a church that is about to go bankrupt,” said the church’s pastor, Andrew Mullins. “But we’re sitting on resources that are valued in excess of \$50 million, and it would be silly not to utilize that for our own mission and ministry.”