

Beechwood Property Committee
Report to the Vestry

February, 2014

I. INTRODUCTION

Membership: Earle O'Donnell - Chair, Former Sr. Warden; Roxy Wolfe, Jr. Warden & Property Committee; Scott Cotter, St. John's Treasurer; Bill Fry, Vestry Member & Adjacent Property Committee; Rene Griffith, Opportunity Shop Board; Brad Kennedy, Vestry Member & Property Committee; Wilson Krahnke, Former Sr. Warden and Treasurer; Mike Belt, Property Committee

In August 2013, the church leadership became aware that the Beechwood Drive property ("Beechwood Property" or "property") would become vacant in August 2014 when the long-term tenants departed. A discussion began about how to best manage the property and prepare for the long-recommended kitchen renovation. In September, Jr. Warden Roxy Wolfe was tasked with inspecting the house with an eye to renovating for the rental market. The Vestry subsequently authorized the allotment of \$30K, which is the estimated cost of renovating the Beechwood Property kitchen and adjacent powder room.

With the property's upcoming vacancy, the Finance Committee requested, and the Vestry authorized, the gathering of a committee to investigate the question of whether it would best serve the church to retain or to sell the Beechwood Property. Roxy Wolfe was asked to convene that committee. Treasurer Scott Cotter volunteered his service. Because of the history of the property and its importance to the parish, representatives from various aspects of the life of the church were invited to join.

The Beechwood Property Committee first met on October 17, 2013. Church archives were reviewed and provided the context of the review of the property ownership that had taken place 15 years earlier. The committee then met: November 11 and December 9, 2013, and January 6 and 18, 2014 (minutes of each of those meetings were filed with the Vestry).

Additional activities included:

- Scott Cotter, Treasurer, prepared financial analyses of the "sell" and "hold" options.
- Calls were made to representatives of seven nearby parishes to ask about their histories with their rectories.
- Rector Sari Ateek was interviewed about his experience with housing options.
- Several parishioners offered thoughtful written comments in response to the committee's request for views in Crossroads.

We contacted many others within and outside the parish for input including but not limited to former Senior Warden Sue Rohan and Property Chair John Gallivan to learn more about the history of repairs and maintenance to the property, Paul Cooney, Diocesan Canon to the Ordinary, who was consulted about the requirements of the Diocese, the chair of the Diocesan Finance Committee which would have to review any decision to sell the property and Sue Bader, who manages the property, and Richard Mandell, who buys and sells residences in the area, to get a sense of what the market value of the property is and, in Sue's case, to learn what the rental value would be with the kitchen and powder room upgrades.

Documentation of these activities will appear as attachments to the report. We discuss the information we obtained from these inquiries in later sections of this report.

The Beechwood Property Committee has sought to understand: What is the role of the Beechwood Property for St. John's today? After many hours of deliberation and consideration of the information we gathered, our thinking evolved from a somewhat binary analysis of which option is better -- to hold or to sell -- into a broader consideration of which option is best suited to provide a lasting benefit to St. John's by providing housing options that are reasonable and fair to rectors with minimal or no additional cost to the church. Because of our awareness that the Beechwood Property holds a special place in the hearts of many parishioners, we have collaborated with the Wardens to provide a process to obtain parish input on this important decision.

II. DISCUSSION

A. Summary of Our Fact-Gathering Process

In 1952, the Women of St. John's provided funds through money raised by the Opportunity Shop to enable our church to acquire a fine residence on Beechwood Drive, Chevy Chase. For many decades it provided housing for the Rector of St. John's. However, since 1993, it has been used only sparingly as the Rector's residence. It is clear that it will not be used as the Rector's residence for the foreseeable future. As a rental property it has provided substantial income to the church during this period and currently serves as collateral for the organ/chancel loan.

We contacted seven nearby Episcopal parishes to learn which had rectories and what led to their decision either to retain or to dispose of their rectory. All owned rectories 15 years ago. Only two have rectories today. All seven seem comfortable with their situation, although some who choose to relinquish their rectories reported that the decision was controversial at the time it was made. We also spoke to Sari to get his insight into the value of a rectory and the benefits of home ownership from the perspective of clergy.

We spoke with the chair of the Diocesan Finance Committee to learn what the process would be if the Vestry chose to sell the Beechwood Property and what conditions the Diocese would impose on the use of the proceeds of any sale. Because the Beechwood

Property serves as security for the organ/chancel loan, which currently amounts to about \$350,000, we spoke to the current lender and one other bank to determine what they would require as security for the loan if the property was sold. We learned that each would allow us to use a portion of the proceeds of a sale as security if the proceeds were deposited with the bank. We reflected these responses in our analysis of the economics of selling the property.

We spoke on several occasions to Sue Bader to obtain her insight both into the likely rent we could expect to receive from the next tenant if we made the upgrades to the kitchen and powder room, and the likely sales proceeds and costs if the Vestry decided to sell the property. We also asked a local real estate builder, who two members of the committee know, for his input into the value of the property. He toured the property with a member of the Committee. He said that the property was a fine home which could be sold essentially as is. He confirmed the sale price estimate provided by our broker which was \$1.1 million. We used her estimate of the sales prices, as confirmed by the other real estate expert, in our analysis of the economics of selling the property. We also included her estimated rental value and the costs of upgrading the kitchen and powder room in our economic analysis of the option to retain the property.

We asked the church archivist for information on the purchase of the property by the Women of St. John's with the financial support of the Opportunity Shop. We also asked her to provide information on the years in which the property was occupied by a rector and when it was leased to a third party.¹ We learned that the Beechwood Property was occupied almost continuously by the Rector of St. John's from 1952 when it was purchased until the 1990's. Over the last 20-25 years, however, it has been rented out except for approximately 6-7 years during a portion of Susan Flanders' term as Rector.

We solicited input from the parish through an article in Crossroads and received three thoughtful responses. One supported sale, one supported retaining the Property and one provided insight into the factors the writer thought we should consider without expressing a position on what should be done. One of the parishioners wrote that the property is "our equity-all paid." She suggested that the church invest the rental payments to cover the cost of repairs and upgrades and predicted that if the property is sold "the money will be spent with little to show for it." A second parishioner urged us, and the Vestry, to consider the needs of the rector for adequate and affordable housing. He wrote that we should strive to provide housing that is equivalent to the living arrangements of the average parishioner through a "salary/housing allowance which does not leave the clergy strapped financially and always worried about how to pay the bills."

Although there was substantial divergence in views about what should be done, we found each letter to be extremely helpful in shaping our thinking, and are very grateful to all who responded.

¹ We also spoke to Michael Creighton, the son of the former rector of St. John's who was later Bishop of Washington, who told us that the Creighton's had moved into the property in 1948, before it was purchased by the church.

We asked the Treasurer to prepare an economic analysis of the revenues after costs if the property were leased for ten years and if it was sold this year. Because leasing over ten years necessarily involves a variety of forecasts, such as rental prices, maintenance and replacement costs and periods when the property is vacant, we asked him to prepare a number of scenarios. Despite various changes in assumptions, the results of all the analyses of rental income fell within a relatively narrow band. This gave us confidence that the results provided a reasonable basis for comparison. We also considered what the economics would be if the Beechwood Property were to be occupied by a rector instead of being leased. As it has not been occupied by a rector since 2006, it was hard to develop a reliable economic case. However, based on our discussions, we concluded that use of Beechwood Property as a rectory would almost certainly be less financially attractive to the church than renting it.

B. Our Evaluation

As our discussions evolved, we realized that the question whether to retain or sell the property had to be considered in a broader context. Providing adequate housing for the rector is not only crucial to attracting and maintaining a rector who can inspire our community and deepen our faith, it is a matter of simple justice. Housing prices are undeniably high in our area. A rector cannot fairly be expected to join us or remain wholly committed to our lives together if he or she must accept substandard living conditions or pay so much for housing that the family has little left for other needs.

The Beechwood Property was, of course, purchased to address this very need but it is not without some drawbacks. For reasons we will explain, a rector living in the property will not only forego the housing allowance but the special tax benefits that are provided by the housing allowance and the potential to build up equity were he or she to own a home. St. John's will also be worse off financially if the net rental income that is forgone is more than the housing allowance. The fact that each of the last two rectors have moved out of the property well before either retired and that the current rector and his family choose to live elsewhere suggests to us that no home, even one as fine as the Beechwood Property that is located in such an exceptional neighborhood, is necessarily the best option for every rector. We, therefore, tried to develop a set of recommendations that would provide flexible housing options to a rector which would be adequately funded for the long-term without any material new costs to the church budget. These are daunting goals but we believe that the recommendation at the end of this report would achieve them.

The questions that we used to organize our thoughts and the answers to each from our perspective are as follows:

1. To what extent is ownership of the Beechwood Property necessary to fulfill the mission of St. John's?

We asked this question because the analysis would be very different if owning a rectory were a necessary part of our church mission. For example, no one would suggest that we sell the worship space or terminate outreach because we might earn more money if we

did so. These are among the core purposes for which we exist as a community. We tried to think of ways that the property might become a direct part of our mission. Some churches we contacted have converted their rectory into space for a women's shelter or a building to conduct church activities. We felt that zoning restrictions and likely community opposition foreclosed the use of the property for such purposes.

This does not mean that the property does not provide important support to the church. Just as the Oneness School supports the church through payment of rent, the lease of the property provides significant income to the church. We have heard some parishioners call the property a "cash cow." There is some truth to this as it has contributed around \$40,000 in recent years to the budget after expenses. (This will not be the case this year because we will need to spend around \$30,000 to upgrade the old kitchen and first floor bathroom and will not be able to rent the property for several months). Nonetheless, it is certainly true that we have received substantial income from renting the property and would continue to do so if we retain it. Moreover, the property might assist us to attract and retain clergy in the future. We address these issues in the next sections.

Nonetheless, our answer to this specific question is "no," owning a rectory is not an essential part of our mission as a church.

2. Will ownership of the Beechwood Property help us to attract and retain a rector in the future? If the answer is that it could do so, are there other realistic alternative that might be more attractive?

We start with the conviction that the high cost of housing in our area is a disadvantage in recruiting and retaining a rector compared to many parishes.² We also were mindful of Sari's comment to us that the property is reassuring to a potential candidate for rector because it appears to be a simple, no worries alternative. If this were the only means to provide housing to a rector, the decision to hold or sell would be easy. So easy, in fact, that we doubt that the Vestry would have called this committee into being.

But the decision whether to live in the Beechwood Property is not as simple for a rector as it may first seem. For example, the Ateeks could not move into the Beechwood Property when they arrived because it was still under lease for another year. Even more telling, the last three rectors have either chosen to move out during their tenure or not move in at all. While the reasons differ, the fact is that for the majority of the last 20-25 plus years and for the foreseeable future, the rector has chosen to live somewhere else. Five of the seven parishes we spoke no longer have rectories. At a minimum this certainly calls into question whether the Beechwood Property is likely to be the most attractive option for all or even most serious candidates to be rector of St. John's.

Our conversations with nearby parishes illustrate that there are a variety of ways that a church can provide attractive housing to a rector. We spoke to seven parishes: St.

² We note in this regard that this is equally true of all clergy at St. John's including the associate rector. We have focused on the rector because the Beechwood Property was purchased to be the rector's home but we suggest that the Vestry consider whether the current housing arrangement for the associate rector warrants review.

Luke's, All Saints, St. Albans, St. Francis, St. Columbas, Grace Church and St. James. All seven had rectories 15 years ago. Only two do today. While the reasons that lead the other five to dispense with their rectories varied (e.g., one said it had a tenant that was "problematic"), in each case the main impetus to convert or sell the rectory was that the new rector indicated that he or she did not plan to live in the rectory. One church that still has a rectory has had the same rector in the house for 25 years so it does not have experience with respect to the attractiveness of a rectory to a current candidate for rector. All Saints Church does have a rectory which is occupied by a rector who joined the church relatively recently.

We certainly cannot know the housing preferences of an unidentified candidate to be rector of St. John's at some unknown time in the future. Nonetheless, we feel the information available to us casts real doubt on the notion that modern clergy are as likely to be attracted by a church owned home as clergy were in decades past. As Sari also said to us, his family loves having their own home in a neighborhood of their choosing. We expect that at least some future candidates would feel the same way and would want to have the opportunity to choose a residence, whether leased or owned, if they had the means to select a reasonable place for their family.

We believe that it would be in the best long-term interests of the church to offer a future rector flexibility to rent or buy a home consistent with the position that he or she holds as leader of St. John's without, as one parishioner wrote, "being financially strapped and always worried how to pay the bills."

We, therefore, recommend to the Vestry the following multi-step plan. The first step is based on the action the Vestry took to help the Ateeks purchase their first home. The Vestry provided a loan to the Ateeks to cover the down payment on their new home. While some portion of the loan will be forgiven over time, some part will be repaid when Sari leaves or sells the home. St. John's will also obtain a portion of the appreciation in the value of the house. We recommend that the revenues that we receive at that time be made available to assist a future rector to purchase a house in the area if he or she wishes to own a home. We believe that this option would be very attractive to candidates for rector and recommend that it be highlighted in the parish profile and the other materials we make available to potential candidates.

Second, we need to be sure that the church provides a realistic housing allowance. If the rector chooses to rent-, Sue Bader, who manages the Beechwood Property for St. John's, advises that a three bedroom house with 2000 square feet in decent shape would be between \$2800-3200 per month in Silver Spring or Kensington. In Chevy Chase or Bethesda the rent would be between \$3300-3800 per month. A housing allowance of \$40,000 per year would cover all these options (growing over time to reflect the changing costs of housing) except for the highest cost option in Chevy Chase or Bethesda.

These options would allow a future rector to live with reasonable comfort, but not by any means in luxury, in a rental home, or to buy a home or to lease a residence for a few years and then purchase a home. We strongly believe that a flexible array of options will

increase the attractiveness of St. John's to future candidates. We discuss how to fund this housing allowance in the next section.

3. Would the church have more money if it retained the Beechwood Property or if it sold it?

The Treasurer ran a number of financial scenarios to answer this question, which are attached. The two options studied for the "sale" option always generated more income than the rental in options over the ten-year period. The assumptions underlying the "hold" case differed principally in the frequency that the property would have to be rented to a new tenant. The more frequent the turnover, the more often that the property will be vacant until new tenants are found. This not only reduces the rental income in those years it increases broker fees, which include one month's rental income each time a new tenant must be found, and more frequent repair and upgrade costs. The average yearly rental revenue was between \$29,000 and \$31,000 in these cases but the amounts varied from almost nothing or negative in years when a new tenant had to be found to over \$50,000 (net) in years when the property was fully leased.

The sale price before closing costs is assumed to be \$1.1 million, consistent with the advice we received, before closing costs. We assumed the bank would require that an amount equal to the outstanding principal for the loan be deposited with the bank and held in a very secure, and, therefore, low return investment. We assumed this amount would only earn 1.25% interest. The rest of the proceeds were assumed to earn 5% per year. After deducting closing costs, the sales option provided an average net income of approximately \$40,000 per year over the ten-year period.

The use of part of the proceeds to secure the loan seemed very inefficient. Currently, the church pays the bank \$29,685 per year including interest at 5.75%. We think it makes little sense for St. John's to pay the bank 5.75% on the principal while earning only 1.25% on this amount deposited as security with the bank. We, thus, propose that a portion of the proceeds be instead used to pay off the loan. St. John's would then pay the amount it would otherwise have paid the bank to itself to fund a housing allowance. As one member of our committee said, "Let's stop borrowing from others if we can borrow from ourselves." The amount that the bank would otherwise be paid would be used to benefit the church instead of the bank. This increased the average net income to approximately \$42,000 over the ten-year period.

Specifically, the net income from the various options are as follows:

- Sale of Property (retention of the organ loan) - \$399,069
- Sale of Property (pay-off of organ loan) - \$419,567
- Rental of Property (3 year renewal cycle) - \$307,138
- Rental of Property (2/3 year renewal cycle) - \$308,533
- Rental of Property (2 year renewal cycle) - \$290,921

For this to work, it is absolutely imperative both that the fund be segregated from all other church funds and only be used to support for the rector housing and that the church pay back the fund for paying off the loan. As one parishioner presciently warned, “If the house is sold, the money will be spent and [there will be] very little to show for it.” In our view this would be a tragedy. The amount must be put in a segregated account and only used for that stated purposes. To assure that this happens, we URGENTLY recommend, that if the Vestry adopts this plan, it pass a resolution containing in the strongest terms possible a commitment not to depart from this plan, that it form an independent committee like the Norwood Parish Fund (or perhaps make it part of the Norwood Parish Fund), to administer the fund and that the church embody this commitment in its proposal to the Diocese for approval of the sale such that this will be a condition on Diocesan approval of the sale.

4. Can we obtain the necessary approvals of the Diocese and the lenders? What conditions will be imposed by them? We contacted Gary Correll, a member of Christ Church and Chair of the Diocesan Finance Committee. He stated that the Finance Committee would review the financial statements of our church including the use of the proceeds of the sale. After reviewing this information, the Finance Committee would make a recommendation to the Diocesan Standing Committee regarding the sale. He said that he saw no reason why we could not use the proceeds, in part, to pay the loan because it would improve the financial position of the parish with the rest to be used to support the housing allowance.

Both of the banks that we spoke to confirmed that they would accept cash in lieu of the security interest in the Beechwood Property. Our loan agreement allows us to prepay the loan at any time.

Based on these conversations we see no impediment to sale of the Beechwood Property consistent with the plan we have outlined above. As mentioned above, we will have to, among other things, explain how the proceeds would be used. If the Vestry approves our recommendation, the commitments on the use of the funds noted in answer to question #3 above should be included in the request with the understanding that they would become a condition on Diocesan approval of the sale.³

5. Would the sale of the Beechwood Property be so divisive within the parish that it should not occur irrespective of any other factor?

The Beechwood Property has been a part of this parish for 60 years. It was a proud gift from the Women of St. John’s with funding provided by the Opportunity Shop. For many years it was the rector’s home. Some but not all of the committee members remember attending events at the Beechwood Property.

Because of this history, we cannot speculate how the parish will react to this recommendation. For some it may be emotionally wrenching. But our collective experience is that St. John’s tolerates and even welcomes change if the reasons are sound,

³ Of course, no approvals would be required if we retain the property.

the process is fair and open and the views of the parish are solicited and carefully considered. To that end, we have worked with the Wardens to ensure that members of the parish have an opportunity to hear our recommendation at the same time we present it to the Vestry and to air their views in several ways. Indeed, we began this process by inviting written comments via Crossroads.

Ultimately, this is a question the Vestry, as the elected leaders of the church, must answer. There is, however, one part of our fact-gathering process that may provide some perspective on this issue. Virtually all of the churches that have chosen not to retain a rectory said the same thing about their decision. First, the decision to sell was quite controversial at the time it was made. Second, there is little or no controversy now about the decision.

6. Are there any other factors that should be taken into account in making this decision?

We recognize that for some a significant part of the appeal of the Beechwood Property is not economic. It can provide some intangible values. It brings the rector and her/his family closer to the church. This seems comforting in some way. It also can be, if the rector chooses, a place where the parish can gather at times. This depends on the predilection of the individual rector, of course, but some of our rectors have opened the rectory to the parish for events. (Of course, a rector could open his or her home to the parish if it is large enough to entertain.) These are somewhat subjective considerations so we can only invite parishioners to express their views on them in the process that will follow. We only note that any discussion of these intangibles must recognize that they depend on the likelihood that the Beechwood Property will at some time in the reasonable future again become the rector's home.

Second, from the rector's perspective the choice to move into a rectory is a complex financial (and personal) decision. In no sense can this be viewed as "free" housing to the rector. The rector pays for this housing in many ways including through foregone payments of the housing allowance and loss of the related tax deduction and, if he or she would otherwise choose to buy, the opportunity to build home equity. One answer to all of this may be that this is the rector's choice so the parish need not be concerned with the economics consequences to the rector. We have two responses. First, the relationship of the rector and the parish is a matter of mutual trust. The parish has in our view the obligation to help the rector understand the options. Second, if we are right that there are real costs to the rector from living in the rectory, this will diminish the likelihood that a future rector will choose to live in the Beechwood Property.

III. SUMMARY OF RECOMMENDATION

The Committee recommends that the Vestry, subject to consideration of the views of the parish, take the following actions:

1. Seek approval of the Diocese to sell the Beechwood Property, subject to the commitment that would become a condition on approval of the sale to use the proceeds to

(a) Pay off the current loan;

(b) Place the rest of the net proceeds into a rector housing allowance fund that would be administered by an independent committee to be formed by the Vestry modeled on the Norwood Parish Fund, or alternatively to place it with the Norwood Parish Fund, which would manage the fund and oversee its use;

(c) To repay the fund for discharging the loan in an amount equal to what would have been paid the bank each year on the loan; or

(d) To use the fund solely to fund that rector housing allowance.

2. Put the Beechwood Property for sale this spring with the sale conditioned on receiving after all costs not less than \$1,000,000 without further review of the Vestry.

3. The Vestry provides assistance to a future rector that wishes to purchase a home similar to what the Vestry has done with the Ateeks, with the proceeds to the church from the sale of the Ateek home and the repayment of a portion of the loan, per the agreement with the Ateeks, used to fund in whole or in the financial assistance to the new rector.

4. Because we believe that the sale of the Beechwood Property would over time enhance the revenues that are available to fund the housing allowance, the Vestry should consider whether a portion of the housing allowance should supplement the rector's salary, so that the rector is not forced to choose between decent housing and adequate support for his family.

5. In recognition that this opportunity exists because of the foresight and generosity of the Women of St. John's and the Opportunity Shop, the fund should be named the "Women of St. John's and Opportunity Shop Rector Housing Fund" or some similar title that will appropriately recognize in perpetuity what they did in the past and remind everyone that their gift to St. John's continues in a different form..

In conclusion, we believe that these recommendations will enhance our chances to attract and retain highly qualified rectors and will promote a just relationship between the rector and the parish without impairing the church budget.

Respectfully submitted,

The Beechwood Property Committee

