How Churches Can Win in a Rising Interest Rate Environment

By Nathan Artt, Principal, Ministry Solutions

We believe that money, whether it's in the form of debt or generosity, is a great servant but a terrible master. The role that money plays in funding your vision is based solely on your ability to create and execute financial strategies that work. When money gets more expensive, it means that the same amount of money will take longer to pay back. It's very important, then, to go into decisions involving debt with even more prudence. Here are a few suggestions to help you win in a rising interest rate environment.

Consider NOT Paying Off Debt

Sounds crazy, right? Isn't the whole point to go into debt with a strategy to pay it off? Yes, in a high interest rate environment that's true. But if you are a growing church, there is a high probability that this won't be the last time you need to borrow money. And in the case of a growing church looking at adding campuses, when people say "debt is bad, pay it off," what they are really saying is, "let's pay off our cheap money so we can borrow more expensive money later." It's not a matter of whether or not you're going into debt. You are. It's a matter of how to go into debt most intelligently.

When it comes to creating and executing financial strategies, we believe it's important to have an idea of what your future capital needs will be so you can plan for them. Let's say you have campuses that are outgrowing the school they're in and you know they're going to need a more permanent location. Instead of paying off debt and then raising money, all to go back into debt (which not only is more expensive but takes much longer), consider seeding your future capital needs so that you can take advantage of opportunities as they arise.

Consider That Interest Rates Are NOT the Only Thing Getting More Expensive

Going back to the idea of not paying off debt before you fund growth, know that construction prices are rising at a significantly faster pace than interest rates. In fact, we are looking at projected 7% – 10% increases in materials and labor, mostly due to the labor shortage, over the next five years. That means a $5 million project will cost you more than $7 million if you start five years from now. That is far more expensive than the difference of a point or two in rising interest rates.

That being said, we believe that churches need to get more efficient and more creative in how they fund growth. Putting money into buildings will have a much more adverse effect on the ministry than it did when real estate prices and interest rates were lower and contractors were giving away their time. After all, it's not the buildings that we're funding, it's ministry capacity. And we need to be funding that capacity at a price point where the capacity pays for itself.

Consider Other Types of Financing Arrangements

In the past two years, Ministry Ventures has funded and managed real estate projects for 18 of the fastest-growing churches in America. Want to know something interesting? We only built one room with more than 1,200 seats, and most of those churches are adding at least one campus per year in venues between 500 to 750 seats. Smaller buildings are easier to find and require less parking and supporting space. Consider a middle step between a temporary location and a massive building project.

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Leasing can also be beneficial. It allows a growing church the flexibility it needs to expand and provides permanency in the area. (Even though it's not your building, no one else can use it.) Most importantly, it gives you an inexpensive approach so that it's not capital-intensive to build critical mass *before* you make the largest per capita capital investment in the history of the church or campus. There is a small lull in the Class A office, industrial, and retail real estate business right now, which means that there is a larger inventory and lower lease rates.

Consider Taking a Non-Traditional Approach to Debt

Most churches put all their debt into one bucket: a five-year loan on a 20-year amortization (maybe 25). They think in terms of five years to five years. What most churches don't know is that debt is a malleable instrument if approached the right way.

We believe in a concept called "tranches." Tranches are simply buckets. This concept allows you to take one loan and essentially divide it into several different loans based on when and how you plan to pay the debt off.

As an example, I can divide one $10 million loan into $3 million on a three-year term, $3 million on a five-year term, and $4 million on a 10-year term. (This is the debt I really don't plan to pay off.) When the first $3 million tranche is paid off, the payment goes away. That means I have freed up almost $220,000 in cash flow, and I can pursue the next opportunity without having to disturb the debt structure I worked so hard to put into place.

Summary

In short, debt is a servant. Plan ahead. Just because you have a nonprofit tax filing status does not mean you cannot have profit.

Margin funds ministry. We believe that churches can win just as much in a rising interest rate environment as they could in a lower interest rate environment. It just requires a different way of thinking.

About the Author

Nathan Artt is Principal of Ministry Solutions, which provides financial advisory and owner's representation services to growing churches. For more information about Nathan or Ministry Solutions, please click here.

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