



SMARTER PERSPECTIVE: REAL ESTATE

Strategic Valuation and Disposition Considerations for Owners of Religious Properties and Their Lenders

By John Satter

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Across the United States, many religious congregations and organizations are facing a pivotal decision: whether to continue spending limited resources operating and maintaining underutilized properties and facilities, sell or lease them to other religious or mission-compatible groups, or reposition them for entirely new uses such as multifamily housing, office space, or community hubs. The decision has grown more complex in recent years as demographic shifts, economic pressures, and evolving cultural values reshape the landscape for organized religion and faith-based organizations.

Financial performance among religious organizations has been shaped by both external economic forces and deep societal change. According to global industry research firm, IBISWorld, periods of high inflation and rising interest rates during 2022–2023 reduced disposable income and temporarily dampened charitable giving. While economic conditions have stabilized donation levels, long-term headwinds remain. Declining participation in traditional worship has been driven by many factors including the pandemic, competing time demands, and a shift toward personal spirituality over institutional affiliation. At the same time, cultural expectations are pushing organizations toward greater inclusivity, while the rise of online worship has altered how—and how often—people engage with their faith.

These intersecting trends are requiring religiously-affiliated property owners and their lenders to think strategically and missionally about the future of these real estate holdings. The choice between preserving a facility's original purpose or adapting it for a new, nonreligious role requires a clear understanding of market demand, community needs, and the organization's long-term mission.

Religious facilities have distinct characteristics that can make their valuation complex and, ultimately, value realization depends heavily on strategic positioning. Determining whether the best outcome for a subject property involves its sale for continued religious use or its repositioning for adaptive reuse is often the critical decision that will shape both the valuation and the success of any eventual disposition. This article discusses factors surrounding the valuation and marketing of religious properties and how religious institutions and their lenders can work proactively to preserve or enhance the value of such assets over time.

The Challenges of Valuing Religious Properties

Religious facilities are typically purpose-built structures with unique features including steeples, sanctuaries, stained-glass windows, and fellowship halls, that make them well-suited for worship but less adaptable to other uses. Many houses of worship are closely connected to the congregations and communities

they serve. The structures are sometimes not just historically-significant, but architecturally-significant as well. As such, their marketability and value depend less on conventional comparables and more on the utility of the building, the flexibility of the zoning, and the demographic and geographic context of the property.

Unlike income-generating properties, houses of worship often lack clear operating income metrics to support income-based valuation approaches. The most common and appropriate methods for valuing religious properties tend to be:

- **Sales Comparison Approach:** This involves comparing recent sales of similar religious properties. However, because such transactions are infrequent and highly specific, adjustments are often necessary to account for location, size, building condition, and community demographics.
- **Cost Approach:** This method estimates what it would cost to rebuild the property minus depreciation. While useful in some scenarios, it often inflates values in markets where demand for religious properties is low.
- **Liquidation Value:** Particularly important in distressed or lender-driven scenarios, this reflects the likely sale price under a forced sale or limited marketing period.

According to the Appraisal Institute's *The Appraisal of Religious Facilities* (2nd Ed.,

2014), the most reliable valuations stem from a hybrid approach that considers comparable sales, underlying land value, adaptive reuse potential, and local demand for religious or community-oriented properties.

Strategic Positioning: Continued Religious Use vs. Adaptive Reuse

The cornerstone of a successful valuation and disposition strategy lies in deciding whether to market the property for continued religious use or adaptive reuse. As faith-based lenders know, that decision cannot be made lightly, as it directly impacts not only the future and mission of a congregation or organization, but also the valuation and the universe of potential buyers.

Continued Religious Use

If the subject property is located in a stable or growing religious community, especially in urban or suburban areas with strong faith-based demand, selling to another denomination or congregation can be the most straightforward and highest-value option. It may also be the option that is most acceptable to the members of the congregation or organization. Religious buyers value the existing infrastructure and require fewer changes to the physical space. Faith-based buyers may also be exempt from property taxes, which can affect how they perceive affordability. However, the buyer pool is relatively narrow and often composed of nonprofit organizations with limited access to capital. Deals may be cash-light or dependent on seller financing, foundation

grants, or denominational or other support and timelines may extend due to internal or denominational approval processes, which can be complex.

Adaptive Reuse

Where religious demand is low or the facility is large, underutilized, poorly maintained, or located in a high-density or gentrifying area, adaptive reuse may unlock significantly higher value. In the U.S., houses of worship across most every faith have been successfully converted into apartments, condominiums, office space, schools, daycares, event venues, and even breweries.

Such conversions often require rezoning or special-use permits, which an experienced advisor must factor into both the valuation and timeline. A feasibility study, including land use analysis, market absorption rates, and preliminary conversations with municipal planning departments, can support a repositioning decision. Notably, if the asset is part of a larger diocese or religious network, broader strategic goals including community impact, neighborhood relations, and religious mission must also be considered in the decision-making process.

Working with Expert Advisory Firms

Religious institutions and their lenders benefit most when they engage advisors with a deep understanding of both real estate fundamentals and the particular nuances and sensitivities associated with religious properties and their stakeholders. A qualified firm should:

- Conduct a robust highest-and-best-use analysis, integrating zoning, neighborhood trends, and market demand.
- Assess the property's physical adaptability and cost implications of reuse versus retention of religious features.
- Identify and segment buyer pools—religious organizations, nonprofit institutions, developers, and private investors—and tailor marketing approaches accordingly.
- Guide the client through municipal engagement if rezoning or variances are needed.

When involved in disposition or transformation efforts, the right advisory firm should also be able to demonstrate sensitivity and experience managing the emotional and political nuances of divesting faith-based properties. Many congregants and community members have deep, emotional attachments to these buildings, and transparency, timing, and articulation of purpose and mission are all essential to maximizing internal support and minimizing potential public opposition.

Implications for Asset-Based Lenders

Asset-based lenders that do business with religious institutions through direct loans, refinancing, or real estate-secured credit, face unique risks. Religious organizations often experience fluctuating attendance and donation patterns which can impact operating viability and property maintenance. In cases where



the institution defaults, the lender must be prepared to appraise, manage, and eventually dispose of a non-traditional asset and be prepared to deal with the potential public outcry when navigating the process of disposition. To mitigate these risks, lenders should:

- Require periodic property condition assessments and maintenance plans.
- Maintain updated third-party appraisals that reflect current market dynamics, including rezoning potential.
- Understand local zoning laws and have a working relationship with planners in key markets.
- Encourage borrowers to explore adaptive reuse options early, particularly if signs of financial distress emerge.
- Consider forming relationships with specialized advisory firms well in advance of a default scenario.

In addition, religious properties held as collateral should be periodically stress-tested against potential liquidation values. In many cases, a church in a prime urban location may be worth significantly more as a redevelopment site than as a house of worship. The liquidation value, in these cases, is driven less by religious demand and more by location, land entitlement, and redevelopment prospects.

Conclusions

The valuation and disposition of religious properties require a multidisciplinary approach that merges real estate analytics with cultural sensitivity and strategic foresight. For institutional religious owners or independent congregations, maximizing asset value is not just a fiduciary imperative, it is often a necessary step in sustaining broader missions and ministries.

Choosing whether to position a property for continued religious use or for redevelopment is not a binary decision. It is a question of timing, location, demand, and flexibility. A purpose-built church on a quiet suburban road may best serve another congregation, while a large cathedral in a gentrifying urban zone may unlock generational wealth through adaptive reuse.

Lenders, too, must understand the intrinsic and extrinsic value of these assets and be prepared to work hand-in-hand with borrowers to preserve asset integrity and optionality. In doing so, they not only protect their financial interests but contribute to the thoughtful stewardship of buildings that often hold deep cultural and community value.

Ultimately, religious real estate is not just about buildings—it's about legacy, land, and leverage. With the right strategic lens and experienced partners, faith-based institutions and their lenders can ensure that the sale or repositioning of these properties honors both the past and the future.

Hilco Global is the authority on real estate optimization, repositioning and disposition. We advise and execute strategies designed to help clients maximize the value of their real estate through a range of core services including: Real Estate Appraisal, Lease Advisory, Asset Sales, Asset Management, and Capital Deployment. Our team's religious properties market experience can assist both new and experienced investors to help achieve growth and optimize return. Vast knowledge and experience in real estate appraisal sits squarely at the center point of our efforts on behalf of clients in this and other industries, where

we provide continued use vs. reuse evaluation services and cost segregation analysis conducted by a seasoned staff of analysts and appraisers. When/where appropriate, our valuations are subjected to a reality test by Hilco Global's own real estate property disposition and acquisition experts, who review and assess valuations as if they were ultimately responsible for marketing the asset or considering its purchase.



JOHN SATTER
SENIOR DIRECTOR
REAL ESTATE APPRAISAL
PROFESSIONAL SERVICES

John joined Hilco Global in 2011 and has broad experience in the valuation of residential, commercial, industrial, and special-use real estate in markets across the U.S. In addition to religious properties, John's commercial work includes a broad range of property and assignment types including single-tenant retail assets, shopping centers, healthcare and medical office properties, industrial complexes, apartment complexes, live-work projects, hospitality, cannabis, proposed construction, partially complete projects, and distressed property valuations.

John can be reached directly at jsatter@hilcoglobal.com or 847.504.2472.