

A Business Plan for Investing in Rental Properties

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Section 1--Summary of Business Plan

By investing one third of CBC's current reserves in real-estate, the congregation will start a five-year practice of purchasing houses that will be rented by members of the community. Total investment in real estate by the congregation will never exceed 45% of congregational reserves. Expected return on investment should be approximately 6-7% annually (plus any appreciation of facility value--typically 2% per year--should the congregation decide to sell the property/properties). The congregation will hire a professional property management firm to collect rent, maintain the facility, and when necessary carry out legal action against tenants.

Section 2--Business History, Background, and Objectives

A. Congregational History in Real-Estate Investment

For many decades Council Bluffs Central has participated in buying and renting properties for the purpose of achieving long term goals. Through the umbrella "Manti Holding Corporation" CBC cooperated with other Mission Center (then Stake) leaders and investors to purchase and rent to community members all of the homes surrounding the Council Bluffs Central congregation building built in 1953. Once they had purchased each one and rented them long enough to obtain the necessary funds (and obtained millions of dollars in pledges), those properties were torn down to make room for our Family Life Center in 2005. CBC, therefore, now sits on an entire city block near the center of Council Bluffs.

B. Short Term Goals

Within the next 12 months, CBC would like to purchase a single residential unit to be rented. Total investment in the property would be no more than \$120,000--per a resolution passed in a congregational business meeting on April 10, 2016. Actual investment would probably be closer to \$100,000.

C. Long Term Goals

CBC would like to continue to invest in real estate as it continues to raise further funds through a pledge drive to take place over the next 5 years. The congregational leadership (the board and pastorate) would like to keep a balanced approach to its

investments; hence, keeping approximately 45% in World Church investment pools, 45% in Real Estate, and 10% in cash. Therefore, as CBC continues to raise money over the next 5 years it will likely continue to seek permission from the congregation to purchase up to 5 estates. See section 8 below for more information about this financial plan. The ultimate, long-term goal of this financial plan is to provide an endowment for the large CBC physical plant and to hire a full-time youth minister at the end of 5 years.

D. Successes and Difficulties regarding real-estate

The successes we have had are evident above in Section 2A. However, they were not without struggle. In particular, when the church invested previously in real-estate the management of those estates was handled in-house by an employee of the Stake who worked for the Stake Bishop. From time to time this put the church in awkward situations with the community. For instance, when tenants did not pay their rent and needed to be evicted it was the church that evicted them . . . which needless to say is hard to synch with the mission of Jesus Christ. See section 2F below to see how the church plans to avoid future situations like this.

E. How the Project will be Funded

The first phase of the plan will be funded by money the congregation already possesses in two of its major funds. Funds will be taken equally from its “building fund” and “youth minister fund” to purchase the first estate. The balance of those two funds is presently approximately \$220,000. As those two funds grow over the next 5 years this practice will be duplicated. Income from the rental of those estates will likewise be split equally back into those funds. There will be no loans needed to fund this business plan.

F. Changes in Structure, Management, or Personnel Made to Accommodate Plan

Structure Changes. Over the past 12 months CBC has taken action to alter its funds to reflect its long-term financial and missional goals. In the recent past, CBC has had a “building fund”, a “building and youth” fund, and a “memorial fund”. To eliminate confusion and to offer members two very clear funds to which they may pledge CBC has changed the name and purpose of its funds to clearly indicate the purpose of its fundraising efforts. Members may donate to the “building fund” in order to endow and fund capital improvements to our facility. And members may donate to the “youth minister” fund in order to fund a future youth minister for an indefinite period of time.

Management and Personnel Changes. CBC has located a property manager to care for any estates that the church may purchase. This person is a member of CBC, but she works for Key Real Estate--a company for whom many members of CBC work and/or possess shares of ownership. Her name is Ruth Knott, and she will provide her services for 7% of the price of the rent. This will remove the church from any direct conflict with the community and gives us the advantage of having a professional property management company keep us in compliance with the law.

Section 3--Business Environment

A. Employees

As mentioned above, Ruth Knott will be remunerated for her services to the church as a property manager. She will communicate any problems to be resolved by the full-time pastor of CBC. That person is presently Donald Welch.

B. Customers

The tenants of these rental properties will all be residents of Council Bluffs, IA. They will be screened by an application process used by all of Key Real Estate's renters.

C. Management--Chain of Responsibility

1. Property Manager--Ruth Knott, Key Real Estate
2. Council Bluffs Central Pastor: Don Welch, MA English, MA Religion
3. Council Bluffs Central Financial Officer: Jim Newcom, MBA, Finance Manager at ConAgra Foods (in absence of pastor).
4. Council Bluffs Central Board Chairperson: Carlin Newcom, MS Elec Engr, MA Phil (In absence of pastor and CFO).

D. Supply and Demand

Rental homes like the ones being considered in this business plan are vacant very little. There is a high demand for rentals that are not part of apartment complexes. According to landlords (who are also members of CBC--Colleen Brabec and Brad Knott) these homes are only vacant two weeks of each year on average. Further there has been a price increase in rental property of 5% over the last year. Some of this increase has been the result of increased property tax, but most of it is due to demand.

E. Business Regulations

The City of Council Bluffs requires that each rental property be registered with the city and inspected prior to being rented. The city collects \$10 for each property. It is only inspected a second time if there is a complaint filed with the city. The lion's share of regulation regarding landlords and tenants can be found under Iowa Legal Code 562A. The law in its entirety is far too lengthy to be listed here. However, a very good summary, published by Iowa Legal aid can be read at this website:

<http://www.iowalegalaid.org/resource/summary-of-iowa-landlord-and-tenant-law>.

Section 4--Present Market

A. Present Market and Geographic Location of Potential Customers

Presently in the city of Council Bluffs 45% of its population rents homes. This is 10-15% higher than the national average, which makes for a very favorable market for investing in real estate. Council Bluffs is a city divided into east and west by the edge of the Missouri River Valley. This edge is "The Bluff" from which the city gets its name. Those who live on the west side are a poorer demographic. A higher percentage of those who live on the west-side rent than do those on the east side. However, those who live on the west side aspire to live on the east. Therefore the first of the church's rental homes will likely be on the east side of town. Future rentals will likely be balanced between east and west. Since our goals are ultimately financial and not

physical the locations of the homes is less important than would be the location of a business providing a product.

B. Growth Potential of Market

The housing market in Council Bluffs is very tight. This is especially true for rentals. In the past 10 years, rent has increased by 13 to 15%. This indicates the demand for rental property is high.

C. Relationship Between Church and Customers

The relationship between the church and the tenants will not be direct given that the church will be using a professional property manager for collecting rent and maintaining the facility.

Section 5--Competition

A. Primary Competitors

There are several large rental firms in town. Among them are N.P. Dodge, P.M.R. Properties, and Key. Since we will be using Key as manager the church's rentals will be thrown into the market as a part of those major players' properties. A large number of rental properties in Council Bluffs are owned by individuals. Many of those individuals use large management firms like we are planning to do.

B. Advantages and Disadvantages Compared with Competitors

Our advantage and disadvantage is the same: small operation. Because we are small we may need to be more creative and intentional regarding our marketing. However, because we are small we will be able to devote more time to each unit than would a large conglomerate.

Section 6--Marketing Plan

A. Describe Target Customers and Geographic Territory

Target customers will be lower-middle to middle-class families with acceptable credit scores who prefer to live in houses over apartments. They will be located within the Council Bluffs Community School District.

B. Marketing Techniques and Tools to be Used

CBC homes for rent will be placed on the same website that Key uses when trying to fill rental vacancies: <http://www.councilbluffsrentals.com/>. Craig's List and the local paper will also be used when needed.

C. How we Determine Pricing

CBC will determine pricing by consulting with our property manager, by comparing rentals of similar size and features, and by time left vacant in the market. Current estimates are approximately \$.80 per square foot on the west side of town and approximately \$1 per square foot on the east side of town.

D. Collection Policy

The exact rental collection policy will be determined by terms in an individual's lease. A standard lease indicates that rent would be due at the first of each month. A late fee

of \$50 is usually assessed after two-weeks. The law indicates that a landlord can submit a 3-day payment demand any time after the two-week late-period elapses. Further, if payment is not current after that 3-day demand the church could legally begin an eviction process. It is doubtful the church would evict somebody after being only 17 days late.

Section 7--Management and Organization

A. Management Team Strengths and Weaknesses

The real strengths of this management team are three fold.

- 1. Ruth Knott and Key Realty's professional management skills are an obvious strength to both ends of this proposition given she and her firm have deep roots at CBC.*
- 2. Jim Newcom, his MBA and financial management skills keep CBC grounded in the realization that this plan succeeds only if it makes money for the congregation comparable to other investment possibilities.*
- 3. Donald Welch as CBC's full-time pastor will provide the manpower necessary if problems arise and/or quick action needs to be taken from an ownership standpoint.*

If the team has any weakness it would be in recognizing as a church that reaping investment from the low-middle to middle-class must be done with a high degree of integrity if it is to be true to the mission of Christ. The team will need to be sure that it holds itself to a standard even higher than the minimum standards of law.

B. Plan to Further Develop Management Team

The pastor will maintain quarterly contact with the property manager and the CFO. The pastor and CFO will make bi-annual reports to the congregational board and annual reports to the congregation. This will keep everybody accountable and learning on a curve together about the project's scope, vision, and progress.

C. Management Succession Plan

Ruth is only one of several property managers at Key Real Estate, and Key is only one of several property management firms who have connections at CBC. She will be replaced without difficulty if needs be. Pastor Donald Welch serves with the approval of the congregation and will be replaced by another professional minister should the congregation wish. CFO Jim Newcom is appointed by Mission Center Leadership and approved by the congregation. He will be difficult to replace if he chooses another path for his volunteer ministry. Jim has promised to educate any subsequent CFOs regarding investment strategy and vision.

Section 8--Financial Plan

A. Congregation's Operating Budget

The Congregation's operational budget is stable. Since 2009 Council Bluffs Central's operating budget has had a surplus of \$43,000. Although the congregations local giving

has been up and down over those six years we have done much to lower our operating expenses. CBC has installed new thermostats, new furnaces, and the congregation has taken over cleaning the facility themselves. The church has been able to lower the congregation's expenses by \$4,000 a year and focus that money back into its operating reserve. The church has also made efforts bringing in other money besides contributions. 18% of its operating budget is funded by fundraisers, facility rentals and weddings. This year the church also applied for and received a Raffle Licence which will allow it to hold a raffle to raise additional funds. Said raffle will include a fishing trip along with other prizes and congregational youth will assist in marketing raffle tickets. This money will be used to help pay for them to go to camp and further fund the operating budget and youth minister reserve fund. If we are able to reach our goal we will have increased outside income from 18% to 22%. Church leadership feels that because CBC has consistently met its operating budget now is an appropriate time to build up church reserves with the goal of future expanded ministries.

B. Congregation's Balance Sheet

As of December 31st, 2015 the Congregation had \$371,257 in cash and investment pools A & B. As mentioned above the congregation has not needed to dip into its reserves for its operating budget. By taking \$120,000 and investing in real estate CBC would be able to purchase a house debt free and use the rent (minus expenses listed below) to add to its reserves. The congregation would still have over \$250,000 in liquid assets . . . enough to cover most conceivable emergencies.

C. Example of Rental Income for Congregation

Example of house currently rented by Key Real Estate. House is 313 Adrian Ave, Council Bluffs, IA 51503, purchased for \$100,000.

	Rental income per month	\$	1,100
	Expenses:		
	Real Estate Taxes	\$	(200)
	Property Insurance	\$	(83)
	Maintenance 10% of rent	\$	(110)
	Property Management 7% of	\$	(77)
rent	Vacaney (8% = 1 month/year)	\$	(92)
	Income (monthly):	\$	538
	Income (annual):	\$	6,456

invested **% return per \$100,000**

6.46%

D. Benefits of Rental Houses

1. *Diversifies CBC investments - CBC wishes to hire a youth minister in the future. Rental houses would bring in a steady income. Obtaining real estate and investing in World Church Pool A and B would bring a balanced investment approach to the congregation. It would also allow the congregation to use the income stream to pay for the youth minister and not have to pull money out of Pool A or B in years when the stock market is down.*
2. *Utilizes the Talents of the congregation - CBC has a history of success with Rental Properties. As mentioned above CBC has been able to buy houses around the church building in the past and rent them out to pay off the loans that were held on them. This allowed the congregation to tear down those buildings and expand its ministry by building the family life center and be a bigger part of the community. This is similar to what the congregation would do today . . . use those talents to expand its ministry and ultimately hire a youth minister.*
3. *Gives the congregation something to be a part of - This business plan is only a piece of a larger fundraising plan that will take place over the next five years. That fundraising plan has come out of a recent congregational blessing that CBC participated in and concluded nearly one year ago. The congregation is united about raising funds for a youth minister and stabilizing its position in the community as a source of the peace of Jesus Christ for generations to come.*

Signature of Preparers:

_____ Signature	_____ Printed Name	_____ Date
_____ Signature	_____ Printed Name	_____ Date
_____ Signature	_____ Printed Name	_____ Date