

## Report to the Archdiocesan Finance Council

### Sale of St. Mary, Star of the Sea Church/Rectory/Hall-East Boston

September 6, 2007

The purpose of this report is to analyze the events that occurred, present an explanation of same, and recommend actions to guide future real estate transactions. The attached chronology is considered part of this request.

#### **Background:**

St. Mary, Star of the Sea Parish was closed in 2004 under the Reconfiguration plan of the Archdiocese of Boston. The real estate assets of the parish were appraised and marketed by means of procedures used to market all of the real estate assets held via reconfiguration. The process was as follows: qualified appraisers valued the assets; professional real estate brokers also provided an opinion of value. In this way, the Archdiocese of Boston obtained the "estimates of value" required under Canon Law. Marketing of the assets was done openly. All properties were exposed for a ninety (90) day period without an asking price before offers were accepted. At that time, a call for last and best offers was made. All offers were then reviewed by staff and reported to the Real Estate Advisory Committee (REAC), a group of real estate professionals whose recommendations guided the Archdiocesan Finance Council.

The assets of St. Mary Star of the Sea were marketed accordingly. The three (3) offers received after the 90-day marketing period in February 2005 came in at 62% or less than value cited in the mass appraisal of \$3.25 MM. The broker was directed to continue marketing.

In 2005 market conditions in East Boston deteriorated as reported by our broker. Offers were encouraged but none were received. In September 2005 the Archdiocese of Boston commissioned a new appraisal on this property and four others that were also not attracting offers. In regard to St. Mary's, the new report cited the declining market and poor condition of the asset and reached a market value conclusion of \$820K for the church, rectory and hall. One buyer from the earlier round of bidding, Indresano Photography, offered \$850K in December 2005. The buyer stated that the property would be used for a commercial enterprise and housing. This offer was the only active offer still on the table, and was recommended to the REAC. With REAC's recommendation it was forwarded to the Archdiocesan Finance Council, which consented to the recommendation. The College of Consultors also consented. The agreement was documented in February 2006 and the transaction closed in November 2006.

In December 2006 Mr. Indresano sold St. Mary Church, Rectory and Parish Hall to the Universal Church, Inc.

#### **Outline of Procedures used in sale of St. Mary, Star of the Sea property:**

RCAB marketed the property as outlined in the sale chronology 2004-2006, (copy attached). The purpose of this report is to analyze the events that occurred, present an explanation of same, and recommend actions to guide future real estate transactions.

- RCAB's policies and procedures guiding real estate disposition focused on a process that met the guidelines set forth in Canon Law as pertains to due diligence in valuation, marketing, and approvals required to effect "alienation" of property. These procedures required that properties be appraised and openly marketed.
- The original appraisal of the St. Mary site was part of a "mass" appraisal of 70+ parish properties identified as potentially salable under the Reconfiguration Plan of 2004.
- Open marketing of the site was contracted to The Codman Company. Codman represented RCAB in the sale of nine (9) Reconfiguration sites; provided property management services to RCAB at the Reconfiguration properties; and has marketed and sold parish assets as well
- Archdiocesan procedures for approval of the sale guided the disposition of St. Mary's in this way: the appraised value of the asset exceeded \$500,000.00. Disposition of an asset valued at \$500,000.00 or more requires the consent of the Chancellor, Vicar General, College of Consultors and Archdiocesan Finance Council. A report outlining the transaction was presented to the College of Consultors and Archdiocesan Finance Council and approved in January 2006. As with all the Reconfiguration assets,

(except single family houses), the property was offered with no asking price with a ninety (90) day window of marketing before offers would be requested.

- The RCAB Real Estate Department reviewed all offers and made a recommendation based on business judgment in this conveyance. All of the offers made in February 2005 were deemed insufficient based on the original appraised value of the asset. Once that first round closed, the marketing provided few new leads or better offers. The asset was revalued in September 2005. Indresano's offer received in November 2005 was viewed against a new, lower valuation, which was a logical step given that no new offers were received and the continued deterioration of the asset. Professionals in the building design and construction field represented Mr. Indresano, the ultimate buyer of the property. The Buyer's business arrangement with RCAB allowed for an extended period of time to employ these professionals in a due diligence investigation of the property in order to plan renovations for commercial and residential reuse.
  
- There was no indication that any other acceptable user would surface to purchase the property for these reasons:
  1. In December 2005 marketing had not found other buyers willing to purchase the property for any purpose,
  2. RCAB had determined that Bethel Brazil Church was not an acceptable buyer based on its policy that sales were not made to religious denominations that might cause confusion among the local Catholic population and,
  3. The physical condition of the property was poor and deteriorating. The church had many leaking areas; water infiltration and lack of heat for 2 years had taken a toll on the structure.

#### **Findings and responses:**

At a meeting after the sale to the Universal Church held with the persons who directly oversaw the sale of the property, Thomas Walsh, CRE, who was RCAB's in-house consultant in charge of the disposition of Reconfiguration properties, and James Belli of The Codman Company, the following points were made:

- The process utilized at St. Mary's was no different than that of many other Reconfiguration property sales, except that a second appraisal was commissioned to provide guidance on market conditions and value.
- Both professionals noted that the appraised value for residential development of the property cited was not attainable in the declining housing market. This, and the deteriorating condition of the property caused potential buyers to submit very low offers relative to appraised value.
- RCAB had no policy in place to routinely place deed restrictions or covenants in conveyances, unless there was reported strong interest in purchase by groups identified as unfavorable to the mission of the Archdiocese of Boston.
- No connection was made between the St. Mary sale and a transaction in 2006 for St. John the Baptist church in East Boston, that contained an affirmative covenant in the deed stating that the property could only be used for commercial purposes. This was done at that time because RCAB had an active offer from a local evangelical church group that had doubled the price for which the property sold to the commercial developer. In effect, because the higher offer existed, RCAB reacted to that transaction with an affirmative covenant that would not allow the church to be reused as a worship site.
- A concern was raised at the May 2004 Presbyteral Council specific to a statement made that East Boston church property should not be sold to an evangelical sect. This was not communicated in writing to the Chancellor.
- No detailed history of all the offers was provided in the one page report to the Finance Council or College of Consultors relative to the offers submitted in February 2005 from the Bethel Brazil Church

and East Boston Neighborhood CDC. The January 2006 recommendation to sell to Indresano cited only his offer in December 2005, as it was the only offer at that time.

**Conclusions:**

- There was no impropriety involved in this transaction whatsoever. There was no “insider dealing” that resulted in any inappropriate or illegal benefit to any parties involved in this transaction.
- The Indresano bid of \$850,000 was the best offer available at the time.
- Even if the Universal Church had offered a higher price RCAB would not have accepted such an offer, given this Church’s anti-Catholic positions.
- RCAB Real Estate Policies were clearly deficient for several reasons:
  - There was no consistent policy regarding the use of covenants as a means of guaranteeing that future uses of worship sites are appropriate and consistent with Canon Law.
  - There was no consistent policy regarding anti-flip provisions in RCAB property sales.
- Senior Management clearly failed to recognize the need for a restrictive covenant on this property given the previous interest expressed by the Bethel Brazil Church.
- The RCAB Real Estate Sales memorandum did not spell out all offers previously made but later withdrawn on this property, only the recommended winning bidder.

**Subsequent changes in RCAB policy and procedure:**

- All decision makers now receive from Real Estate a memorandum containing all offers made on a property, along with an outline of the use as presented by the recommended buyer. The memorandum will now note the recommended restrictions and covenants to be placed in the conveyance documents. All concerns about property sales will be presented to the Chancellor’s office for proper handling and communication to key personnel.
- A new policy, making explicit the following points, is now drafted in order to provide guidance in drafting of all future purchase and sale agreement and deeds. These documents will henceforth contain covenants and restrictions as follows:
  1. Affirmative covenants that will enforce the use of the property for the purpose presented by the buyer, i.e. housing development.
  2. Negative covenants that will restrict the future use of the property, i.e. religious purposes, abortion clinic, abortion counseling, euthanasia counseling, stem cell research and other such purposes as determined in the Archbishop’s sole discretion.
  3. Anti-flip provision will restrict unjust enrichment to the buyer of RCAB property should the property resell for a price higher than received by RCAB.
  4. Both the College of Consultors and Finance Council will receive advice on the above restrictions and covenants in the reports provided by RCAB Real Estate that inform the decision to convey property.

Respectfully submitted,

James P. McDonough, Chancellor