

# LEASING CHURCH SPACE A CONDENSED GUIDE

VIRGINIA EPISCOPAL REAL ESTATE PARTNERS

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## Introduction

Many congregations across the Diocese of Virginia are exploring how to make better use of underutilized buildings and land. Leasing space is one of the most effective ways to generate revenue, strengthen mission impact, and build deeper relationships with the surrounding community.

This condensed guide summarizes key considerations for congregations discerning whether and how to lease space while maintaining good stewardship, missional alignment, and financial sustainability. See our expanded version of this guide, *A Guide to Leasing Space* (November 2025) on our website.

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## 1. About VEREP

VEREP is a ministry of the Episcopal Diocese of Virginia that helps congregations reimagine real estate for mission, community benefit, and long-term financial health.

VEREP provides:

- Coaching and visioning support
- Physical needs assessments
- Technical guidance on leasing, partnerships, housing, and community uses
- Access to funding opportunities
- Workshops for vestries and leaders

Congregations can visit [verep.org](https://verep.org) for support or to request individualized assistance.

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## 2. Preparing to Lease Space

Leasing is both a ministry opportunity and a business arrangement. Congregations should approach it with clarity about their mission, their space, and their goals.

### 2.1 Using “How to Rent Well” as a Foundation

Rooted Good’s *How to Rent Well* is an excellent discernment tool for:

- Facilitating congregational conversations,
- Assessing space,
- Reviewing tax and security considerations,
- Understanding market demand

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## 3. Marketing Your Space

Congregations can identify tenants who advance mission, meet community needs, and use space responsibly. Ways to market can include:

- Word-of-mouth networks (schools, childcare licensing offices, nonprofits, local agencies)
- Commercial brokers (especially for larger or more complex spaces)
- Third-party property management firms with leasing teams
- Direct outreach to potential partners
- Online platforms (emerging options for church rentals)

Nontraditional uses (besides long-term tenancy) may include events, shared worship, educational classes, music rehearsal, commercial kitchens, parking rentals, or community programs.

## 4. Leasing to Childcare Providers or Schools

Childcare and early learning tenants can bring strong missional and financial benefits. Key considerations include:

- Understanding the early learning landscape and local demand
- Conducting site visits and reviewing licensing histories
- Ensuring the space meets regulatory and safety requirements
- Clarifying roles through:
  - a Letter of Intent
  - a formal lease
  - a Program & Operating Agreement (daily logistics, communication, safety)

Common risks include zoning conflicts, reputation concerns, and operational tension, all of which can be mitigated through clear agreements, regular communication, and alignment on child-safety policies.

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## 5. Understanding Prohibited or Regulated Uses

Before negotiating any lease, confirm that the activity is legally permissible.

Check:

- Local zoning regulations
- Occupancy limits
- Licensing requirements for childcare, schools, or specialized programs
- Whether the tenant's activities could alter the building's tax-exempt status

Most jurisdictions offer zoning confirmation letters; some require formal applications.

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## 6. Vetting Potential Tenants

A structured vetting process helps avoid long-term problems.

Collect:

- Program description and intended use
- Staff and visitor patterns
- Insurance certificates
- Financial documentation (bank statements, statements of cash flow, tax returns)
- References and tenancy history

Evaluate:

- Mission alignment
- Space compatibility
- Financial capacity
- Impact on building operations and congregational activities
- Responsibilities for cleaning, maintenance, utilities, and repairs

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## 7. Setting Rents

Congregations must understand their full cost structure before setting rents.

### 7.1 Steps to determine rent

1. Calculate annual operating costs, including utilities, janitorial, maintenance, and staff time.
2. Allocate costs to the space being leased (per square foot or proportional use).
3. Include deferred maintenance needs (roofs, systems, long-term replacements).
4. Account for vacancy and risk—rent must exceed costs to provide a financial benefit.
5. Research market rents for similar commercial space.
6. Set a rent within the “floor” (costs) and “ceiling” (market).

### 7.2 Common commercial rent structures

- Full Service Gross: One flat amount; easiest for the tenant; highest risk to church.
- Modified Gross: Tenant pays base rent + utilities; moderate risk.
- Triple Net (NNN): Tenant pays rent + taxes, insurance, and maintenance; lowest risk to church.

Mission-driven discounts are possible but rents should still cover costs.

## 8. Choosing Between a Lease and a License

Leases:

- Convey a possessory interest
- Best for schools, childcare, long-term exclusive use
- More regulated and legally durable

Licenses:

- Allow shared/non-exclusive use
- Easier for short-term tenants, events, worship sharing
- Grant more control to the congregation

A Letter of Intent (LOI) can outline terms before drafting a formal agreement.

Congregations should consult legal counsel. VEREP can connect congregations with attorneys experienced in church property agreements.

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## 9. Tax Considerations

### 9.1 Unrelated Business Income Tax (UBIT)

Generally not applicable to rent from real property unless:

- the space is debt-financed (mortgaged), or
- the church provides significant personal services (e.g., food service).

Consult a tax professional before signing any agreement.

### 9.2 Real Estate Tax Exemption in Virginia

- Properties used exclusively for religious purposes are exempt.
  - The portion leased for non-religious uses becomes taxable.
  - Churches must disclose leasing arrangements to the locality.
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## 10. Property Management Options

Congregations can manage space themselves or hire a third-party property manager.

### 10.1 Benefits of third-party management

- On-call maintenance response
- Marketing and tenant screening
- Lease enforcement and rent collection
- Access to established vendor networks
- Buffer between congregation and tenant
- Compliance support (safety, inspections, insurance)

### 10.2 Challenges

- Cost (often 6–8% of collected rent)
- Mixed quality of firms
- Loss of some control
- Tenant satisfaction varies

### 10.3 If self-managing, establish:

- A Property Committee
- Clear maintenance procedures
- Work order tracking
- Vendor relationships
- A sexton or maintenance contractor
- Defined lines of authority and budgeting processes

## 11. Accounting, Insurance, and Risk Management

### 11.1 Accounting

- Set up a chart of accounts for rental income and expenses
- Track costs by tenant
- Assign and record work orders
- Maintain clear documentation for taxes and audits

### 11.2 Insurance & Risk

- Conduct annual facility inspections
  - Update insurance coverage before lease execution
  - Require tenant to list the church as Additional Insured
  - Maintain emergency signage, maps, and safety procedures
  - Ensure compliance with Safe Church policies
  - Consider security upgrades (locks, cameras, alarms)
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## 12. Evictions

If eviction becomes necessary:

- A written, updated lease is essential
  - Consult legal counsel immediately
  - Follow required notice procedures
  - Protect the space and maintain documentation
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## Conclusion

Leasing church space can advance mission, strengthen community ties, and create sustainable revenue—when it is done intentionally and thoughtfully. VEREP is committed to helping congregations discern, plan, and implement space-use strategies that are financially sound and spiritually grounded.

For support, visit [verep.org](http://verep.org) or contact VEREP staff for individualized guidance.