



Pursing Real Estate Gifts as an Innovative Fundraising Approach

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Review of Topics

- Growing attention to real estate gifts
- Real estate is where the wealth is
- Better understanding real estate wealth
- Real estate gifts - What they look like
- Real estate donors - Who they are
- Options for disposing of real estate - the expanded menu
- Pursuing real estate gifts these days
- Outright gifts
- Best practices for increasing real estate gift activity



Growing Attention to Real Estate Gifts

What is your organization's attitude toward real estate gifts in recent years?

- Have become more receptive 22%
- Have become less receptive 1%
- No change 74%

Source: 2008 Survey of Membership of National Committee on Planned Giving



Growing Attention to Real Estate Gifts

What percentage of your total gifts over the last three years, measured in dollars, were real estate gifts?

- 15% or more were real estate gifts 7%
- 10% to 15% were real estate gifts 6%
- 5% to 10% were real estate gifts 12%
- 5% or less were real estate gifts 57%

Source: 2008 Survey of Membership of National Committee on Planned Giving



Real Estate is Where the Wealth Is

Real Estate Wealth Indicators

- Real estate assets comprise 28.7% of the total assets of U.S. households (Federal Reserve Board "Balance Sheet of Households and Nonprofit Organizations," First Quarter, 2009)
- For the wealthiest 10% of U.S. households, 48.8% of net worth was in real estate equity. (Federal Reserve Board Survey of Consumer Finances, 2004)
- As of March 31, 2009, estimated value of household real estate was about \$18 trillion. (Federal Reserve Board "Balance Sheet of Households and Nonprofit Organizations," First Quarter, 2009)



Better Understanding Real Estate Wealth

Learn about your prospects' second, third and fourth properties...

- In 2005, 1 in 10 households owned 2 or more properties
- 1 in 25 owned 3 or more properties
- 39.9% of 8.4 million homes sold were "second" homes
 - 27.7% owned for investment purposes
 - 12.2% owned as vacation homes

Source: National Association of Realtors, 2005



Real Estate Gifts - What They Look Like

From 2003 Tax Returns

- \$5.9 billion in real estate donations in 2003 (3% of all charitable giving)
- Over 65% (in \$) from taxpayers 65 and older
- Average size of real estate donation for taxpayers 65 was \$735,000

Also

- For persons over 65 years of age, 83% of that real estate is debt-free

Source: IRS, "Individual Non-Cash Charitable Contributions, 2003"; Statistical Abstract of U.S.



Real Estate Gifts - What They Look Like

Types of Properties Reported Given:

■ Primary residence	20%
■ Undeveloped land	17%
■ Second/Vacation homes	16%
■ Rental residential properties	14%
■ Commercial properties	12%
■ Farms and ranches	12%
■ Land with conservation value	3%
■ Time shares	2%
■ Industrial properties	1%
■ Other	1%

Source: 2008 Survey of Membership of National Committee on Planned Giving



Real Estate Donors - Who They Are

Motivations of the Real Estate Donor

- Charitable intent 44%
- Relief from headaches of owning and managing real estate 22%
- Available tax deductions 18%
- Life income 12%
- Other 3%

Source: 2008 Survey of Membership of National Committee on Planned Giving



Real Estate Donors - Who They Are

Real Estate Donors Tend to Own:

- One property 13%
- Two properties 39%
- Three properties or more 48%

Source: 2008 Survey of Membership of National Committee on Planned Giving



Real Estate Donors - Who They Are

Composite Profile of the Real Estate Donor

- Age 65+
- Own multiple pieces of real estate, perhaps in multiple states -- much of it is appreciated
- No heirs, or children moved away and not interested in the real estate
- If there are children, there are other assets to pass on to them
- Capacity to use charitable income tax deductions
- Charitable motivation



Real Estate Donors - Who They Are

Possible additional factors motivating the real estate donor

- Eager to dispose of a property, but wary of going through the listing process during volatile market times
- Want to convert real estate holdings into supplemental retirement income
- Selling a business, or another property, which generates a capital gain in search of a tax offset



Real Estate Donors - Who They Are

Possible additional factors motivating the real estate donor (cont.)

- Want to make a gift of a home or farm, but want to continue using the property for a few more years
- Want to resolve, once and for all, the future of a property so it won't be debated by family for the next 20 years



Options for Disposing of Real Estate

Property Disposition - Familiar Approaches

- Sell the property, pay the capital gains taxes, invest the proceeds, and move on.
- Pass the property on through the estate, let the kids figure it out.
- Have it pass to charity through the estate.



Options for Disposing of Real Estate

Property Disposition - Approaches with a Gift Component

Outright gift

Part sale, part gift

- Bargain sale (part donation, part taxable sale)
- Fractional interest gift

Life income arrangements

- Charitable remainder trust
- Charitable gift annuity
- Installment bargain sale



Options for Disposing of Real Estate

Property Disposition - Approaches with a Gift Component (cont.)

Maintain use of property

- Donate remainder interest in property, retaining life estate

Life income and continued use of property

- Combine charitable gift annuity with retained life estate



Options for Disposing of Real Estate

Property Disposition -Approaches with a Gift Component (cont.)

Pass property to heirs

- Charitable lead trust

Conserve the property

- Any of above can be combined with a conservation easement or a historic preservation easement



Options for Disposing of Real Estate

Real estate gift structures used very or somewhat frequently:

	<u>All respondents</u>	<u>High volume programs</u>
■ Bequest	51%	71%
■ Outright	47%	78%
■ Charitable remainder trust	44%	73%
■ Retained life estate	27%	43%
■ Undivided/fractional interest	19%	40%
■ Charitable gift annuity	18%	34%
■ Bargain sale	11%	30%
■ Retained life estate/CGA	6%	18%
■ Charitable lead trust	5%	8%



Pursuing Real Estate Gifts These Days

General observations

- Be user friendly
- Don't assume all properties offered as gifts these days are lemons - far from it
- Don't automatically run from the potential gift because the property has lost substantial value in the last two years
- Work with your donor to minimize your sale risks.



Pursuing Real Estate Gifts These Days

General observations

- Be realistic about the net value you'll realize on sale.
- There are many property-rich, cash-constrained donors who need reminding that they have charitable capacity - in their real estate.
- Beware of donors requesting that you not sell the property for at least three years.



Pursuing Real Estate Gifts These Days

Real estate gift types that make
particular sense these days

- Outright gifts
- Charitable gift annuities



Outright Gift

Outright Gift

- The type of real estate gift I've seen most frequently in the last two years.
- Yields the largest possible deduction for the donor.
- Yields the largest possible gift for the non-profit.
- Funds are available here and now - as soon as property is sold. Can meet current needs.
- Simplest type of real estate gift for all concerned.
- Simplest appraisal process for donor.
- Can be structured to minimize the charity's holding period.



Outright Gift

Mt. Holyoke Farm Gift

- Outright gift of an 80-acre Illinois farm by an 85-year old Mt. Holyoke alumna
- Inherited the property many years ago. Very low basis.
- Was yielding steady rental income, but the hassles and worries of long-distance management had become too much.
- CPA informed her of capital gains tax that would be due if she were to sell.
- She had long been interested in making a substantial gift to her alma mater.
- She approached Mount Holyoke in October, inquiring if an outright gift of the farm could be completed by end of the year.



Outright Gift

Mt. Holyoke Farm Gift (cont.)

- The College said probably, but no promises.
- The parties agreed on a gift acceptance letter.
- Due diligence - environmental assessment, title and access issues, opinions of value and marketability - all checked out
- Gift closed in December.
- Donor claimed deduction of the appraised value of \$412,000.
- Mt. Holyoke sold the property the following February for \$432,000. Net proceeds were dedicated to a fund for the support of the College's science faculty.



Outright Gift

Assumption College Vacation Home Gift

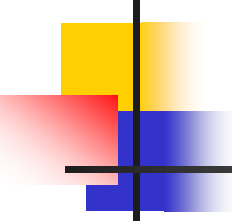
- A couple - he was an alum --in their 60s owned a substantial vacation home on Cape Cod.
- They weren't getting the use out of it they once did, so it was time to dispose of it.
- They considered selling it.
- But approached Assumption College about their interest in accepting it as a gift.
- After due diligence investigations proved satisfactory, the College took title to the property.



Best Practices for Increasing Real Estate Gift Activity

Key ingredients

- Policies and procedures for real estate gift acceptance
- Training of development staff and board members
- Search for leadership gifts
- Marketing, marketing
- Prospect research
- Staff/consultant capacity



Why Adopt Real Estate Policies and Procedures?

- Demonstrate that risks can be evaluated and contained
- Build internal support, and get buy-in from all parties
- Define and build working relationships
- Clarify what types of real estate, and what gift structures, are acceptable, under what circumstances
- Set simple gift minimums, initial screening criteria
- Spell out due diligence procedures
- Reassure development staff and prospects that process won't drag on and on
- Provides basis for encouraging real estate gifts through marketing and prospect outreach



Gift Data Sheet Topics - for Initial Screening Decisions

- Property location
- Property description
- Land and building area
- Current uses
- Abutting uses
- Recent sales history
- Photo, map
- Donor info
- Legal owner info
- Mortgage?
- Donor objectives
- Gift vehicle contemplated
- Purpose of gift

Training of Development Staff and Trustees



- Understanding the profile of a likely donor, learning to recognize situations and opportunities.
- Review basic case studies, fit of different structures with different situations
- Initiating the real estate conversation
- Reviewing institution's procedures and quick decision-making ability

Search for Leadership Real Estate Gifts



- A potential real estate gift is sitting at the table at every meeting of the Board of Directors.
- No better way to market real estate gifts than highlighting gift from prominent friend of the institution
- Brainstorm, looking at prospects through different lenses



Marketing, Marketing

- Appeal to aging property owners facing decisions about their real estate
- Emphasize problem solving, understanding of the prospect's situation
- Repeat the message in many forums
- Case studies, especially real ones, are most effective
- Prompt, user-friendly response when the call comes

Prospect Research



- Look for prospects with multiple appreciated properties in multiple states
- Tune in to comments about possibly selling a property in the next few years
- Focus on major reunion classes in next 3 years

Staff/Consultant Capacity



- Don't get caught in the chicken and egg dilemma: no staffing, no marketing
- Develop internal expertise in real estate gift planning
- In the meantime, make judicious use of consultants



Conclusions

- With gifts of cash and appreciated securities hard to come by, pursuing real estate gifts makes sense for more and more non-profits.
- There is enormous real estate wealth waiting to be untapped for charitable purposes.
- Use the entire menu of gift structure options available to solve your donor's real estate issues.
- Remember outright gifts of real estate.



Conclusions (Cont.)

- Good real estate gifts will come if you *ask*, if you have proper screening procedures in place, and if you develop the right expertise.
- Take the modest steps necessary to ramp up your real estate gift activity. It will pay off if you are patient.