HANDING OVER THE KEYS

A growing number of older homeowners are arranging for their houses to go to charity, deciding it's the ultimate good deed (with great tax benefits to boot). BY JENNA PELLETIER

When Gretchen and Wayne Hays retired in their 60s, the California couple found themselves eager to downsize. With their two children grown and out of the house, their oceanfront four-bedroom in Malibu felt empty and burdensome to maintain. So, in 1997, the Hayses put the home on the market, but first placed 25 percent of the asset in something called a charitable remainder unitrust. In this philanthropic setup, you irrevocably transfer an asset to a trust or organization; after the property is sold, the donor receives an income payment from the proceeds for a set period of time. Gretchen had always wanted to make a large donation to her Massachusetts alma mater, Mount Holyoke College, and the sale of the house would finally give her the ability to do so. They dedicated 70 percent of the trust (to be distributed upon their deaths) to the college's endowment, with the remaining 30 percent still to be determined. When the property sold a month later for $2.8 million, the trust became worth $720,000 and entitled the couple to a reduction in their capital gains tax liability, a hefty charitable donation tax deduction, and annual income for the rest of their lives.

Real estate philanthropy has become increasingly common in recent years. A growing number of nonprofits have become willing to accept non-cash gifts, and donors are catching on to the fact that such philanthropy can provide benefits beyond the satisfaction of a good deed. Older homeowners, in particular, often find it an attractive way to convert a difficult-to-maintain vacation or second home into retirement income, tax deductions, and the ability to support a favorite cause.

Although real estate is the largest single item of net worth for most households, it currently only represents 3 percent of charitable giving, according to Dennis Bidwell, principal at the Northampton-based real estate consultancy firm Bidwell Advisors. "It is still a largely untapped resource, but I see that changing throughout the nonprofit sector," he says. "There's this sense that, my goodness, we're missing out on a tremendous amount of gift potential by not pursuing real estate. Especially during these cash-constrained times, we've got to look beyond cash gifts."

The Boston Foundation, like many larger nonprofits, makes an effort to communicate its desire for real estate gifts, says vice president for development Ruben Orduna. In the last 15 years, the foundation has taken in nearly $28 million worth of real estate – everything from shares in a Beacon Hill co-op to undeveloped beachfront property in Gloucester – and has seen inquiries increase in the last five years. An added benefit: Such gifts are typically larger than cash donations. Smaller organizations, however, often turn down potential donations, lacking the capacity to handle the logistics, upfront costs, or potential risk (finding an environmental hazard, discovering it is tough to sell, etc.) involved with a property sale.

While the typical donor is older than 65 and owns multiple homes, Bidwell says it is not uncommon to encounter less wealthy real estate philanthropists. They might, however, structure the gift as a retained life estate, a scenario where the donor transfers ownership to the nonprofit but retains the right to live there for a specified amount of time, often until death.

The Hayses are now settled into a condominium a few miles from where they used to live. They are using some of their newly found free time to figure out, through things like study trips to Asia with the nonprofit Hefer International, which organizations should benefit from the remaining 30 percent of their trust. Gretchen Hays urges others who are considering real estate philanthropy to look into it further. "I have absolutely no regrets," she says. "It was the single most appreciated asset we had, so it enabled us to give a gift larger than we ever would have thought possible." ■

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