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The Case for a Real Estate Gift Opportunity Fund

Real Estate Assets as Charitable Gifts

The value of real estate assets owned by households increased, on average across the country, by 43% from 1998 to 2002. Over the same time period, the value of non-cash financial assets owned by those households shrunk by 7%[1] . This means that real estate holdings increased from an average of roughly 25% of total household assets to about 35% of assets over that short period of time. In many instances, of course, much more than 35% of a household's assets are real estate assets.

Much of this real estate is held by aging households facing estate planning, retirement and charitable decisions. Indeed, making the conservative assumption that $41 trillion of wealth will be transferred by aging generations over the next 45 years,[2] and that 35% of this wealth is in the form of real estate, this suggests that over $14 trillion of real estate will be transferred, one way or the other, as aging generations make decisions about their real estate holdings in the years ahead. Close to one trillion dollars of this real estate that will be in transition is in the six New England states alone.

This situation offers tremendous opportunity for non-profit organizations and private property owners interested in working together to fashion tax-wise charitable solutions for the transfer of some of this property. The time is especially opportune for considering those charitable real estate arrangements made more attractive by today's very low interest rates, notably life-income arrangements and retained life estates. Furthermore, real estate owned by households considering estate planning options is rarely encumbered by debt, which can greatly simplify charitable gift arrangements. (For persons 65 years and older, 83% of real estate is debt-free.[3])

Why Aren't There More Real Estate Gifts to Charities?

Given these circumstances, why has so little attention been paid to gifts of real estate by the professionals advising aging families -- trust and estate attorneys, CPAs, and financial planners – and by development officers and gift planners at charities themselves? First, professional advisors who are generally quite comfortable recommending creative gift strategies to their clients regarding appreciated stocks, bonds, mutual funds, partnership interests, insurance policies, and even artwork, often seem out of their element in discussing their clients' real estate holdings. In their professional practices, many such advisors simply have not encountered examples of, say, real estate being used to fund charitable remainder trusts or charitable gift annuities. At the same time, professional training sessions and conferences generally give little attention to the tax treatment and operational logistics of such real estate transactions. Furthermore, many non-profit organizations have discouraged gifts of real estate, either because of the

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[1] Federal Reserve Board "Balance Sheet of Households and Nonprofit Organizations," March, 2003.
[2] Schervish and Havens, Boston College, 1999.
[3] 1997 Statistical Abstract of the US

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complexities and risks that can accompany such gifts, and/or because the attention of gift planners has been fixed on financial assets which, until recent years, were attractive as gifts because they were fairly consistently appreciated in value.

Because there have been relatively few creative real estate gifts structured by donors and advisors and charities, most non-profits recognize that it will take considerable marketing and outreach to inform potential real estate donors of their institutions' interest in considering alternative structures for real estate gifts. Compounding the problem of lack of awareness of these alternatives is the very real fact that a charity considering any form of real estate gift often faces considerable upfront time and expense in evaluating the suitability of the prospective real estate gift and in moving the gift to closing and disposition. The costs of due diligence (environmental assessment, title search, market investigations, permitting review, etc.), when combined with legal fees, carrying costs while the gift property awaits sale, and the costs of sale, can be daunting to many charities with increasingly constrained operating budgets.

Overcoming Obstacles to Real Estate Gifts

In part because of recent attention to real estate gifts in professional journals and websites (Planned Giving Today, Chronicle of Philanthropy, Planned Giving Design Center), in the business press (Boston Business Journal, San Francisco Business Times) and at professional conferences and workshops (estate planning councils, bar association workshops, etc.) professional advisors and gift planners are gradually becoming better informed of the opportunities that exist for real estate gift structures that address the planning needs of aging families and the financial needs of non-profits. And, as development activity involving appreciated financial assets has tailed off dramatically in recent years, some gift planners have indeed begun to turn their attention to the only class of asset that in these times has fairly predictably held value or appreciated in value.

These trends will continue to produce greater interest in the structuring of creative real estate gifts. But non-profits will be left with the need to market their interest in real estate gifts, and their need to cover the upfront costs of investigating and structuring such gifts.

The Need for Real Estate Gift Opportunity Funds

There are a growing number of non-profit organizations which have become convinced that millions of dollars of real estate gifts could be realized if only they had some "seed capital" to carefully develop intelligent real estate gift programs, to market their programs, and to cover the upfront costs of investigating and structuring real estate gift transactions. These charities need small revolving funds to "prime the pump" for their real estate gift efforts. Such funds -- let's call them real estate gift opportunity funds – could be drawn down on to start real estate gift programs and investigate initial real estate gifts, with an expectation that funds would be replenished from disposition of gifts of real estate. Such working capital could have a very high leverage impact – a $50,000 revolving fund could very well make it possible for an enterprising non-profit to attract millions of dollars of real estate gifts over a several year period.

Real Estate-Savvy Non-Profits

Some non-profits (land trusts and other conservation organizations, historic preservation organization, affordable housing and community development organizations) have in-house real estate expertise and boards of directors reasonably comfortable with real estate risk. These organizations are particularly well-suited for the development of real estate gifts programs, if only they had the working capital to design and launch such efforts.

Funding a Real Estate Gift Opportunity Fund

A Real Estate Gift Opportunity Fund could be funded in several ways. Board members with an interest in developing an organization's capacity to generate real estate gifts would be an obvious place to begin. Some organizations are convinced that a modest diversion of endowment dollars to create such a revolving fund would be a sound investment. Foundations interested in helping shore up the financial security of non-profits could realize tremendous leverage from contributions used to establish such funds. Low-interest loans – 1% long-term loans – from friends of the organization could also provide the working capital necessary for non-profits to seize the opportunity for real estate gifts.

Whatever the source, charities would be well-advised to consider creating funds to help them launch and operate real estate gifts programs designed to attract creative real estate gifts from their constituents.

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