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Real estate donations gain ground

By JEREMIAH HALL | Special to The Christian Science Monitor

SAN FRANCISCO - It's the season of swanky gala fundraisers and opening-night art events, but these days forward-thinking charities might not ask for your checks. Instead, they might ask for your house keys.

Stock-market seesawing has shifted a greater share of many Americans' net worth to real estate, and charities have taken notice. Tapping that wealth has led some nonprofits to unveil new options for potential donors. The nonprofits' first goal: Make the real estate donation process attractive by offering donors - often elderly homeowners - ways to avoid taxes, pay off their mortgages, and even earn a stipend for life.

Real estate donations come in many forms and individuals should research all of the options before signing over any property to a charity, experts say. They also recommend comparing donation programs from multiple nonprofits.

Some options are simple "bargain sales," where a donor sells a home to a charity at a substantially reduced price. The charity then resells the house and pockets the difference. Donors get a tax deduction and avoid capital-gains taxes, says Ray Ferrara, a certified financial planner in Clearwater, Fla. His firm, ProVise Management Group, has helped many individuals donate real estate.

Take a $500,000 home with a $100,000 mortgage. A charity may purchase the home for $100,000, allowing the donor to pay off the mortgage. The tax deduction, Mr. Ferrara says, is calculated by taking the donor's net equity in the home minus the purchase price. In this case, the donor had $400,000 in equity and received $100,000 from the charity. The deduction is valued at $300,000. That spells significant tax savings to most donors.

Ferrara advises his clients to look out for a common pitfall: "Get a good appraisal to make sure you're getting the right charitable contribution," he says. "The IRS will look to make sure the property was appropriately valued. If it wasn't, they may revoke the deduction."

Some real estate giving proposals not only offer tax breaks and mortgage payoffs, but "charitable gift annuities" and "life estate contracts." Such deals let the donor reside in the donated property until his or her death. The annuity provides a lifetime income in exchange for the donation. Annuity rates are based primarily on age. A 65 year old should receive an annuity valued at 6.3 percent of the donation, Ferrara says, while an 80 year old should receive 8.3 percent.

Before donating real estate, Ferrara warns clients to choose a charity with a strong balance sheet. "If a charity goes under, so does your annuity," he says.

Would-be donors can expect to see more nonprofits making these real estate options available as charities notice its advantages. An automobile donation, for example, can cost as much as 80 cents on the dollar for a charity to process. An opening night arts gala might return 50 cents. But less than 20 cents on the dollar goes to funding real estate donations, says Chase Magnuson, president of Real Estate for Charities in Carlsbad, Calif. "Nonprofits are missing the boat by not tapping into this fundraising source," he says.

Marsha Lubick, vice president of philanthropy for Sharp Healthcare Foundation of San Diego, a southern California hospital group, says her organization has seen a big increase in real estate giving. "We send out dozens of proposals each month to donors interested in giving their property. It's important to give people options. We try and put together a package that will allow them to keep their home and give them monthly income."

Still, charities need to use caution when accepting a donated property. "Real estate fundraising isn't for the faint hearted. Charities need to watch out for bad property or else they'll be stuck footing the bill," says Leo Arnoult, chairman of the Trust for Philanthropy and a fundraising consultant in Memphis, Tenn. "Most donors have good intentions, but some charlatans might be looking for clever ways to off-load bad properties."

A lack of resources and know-how has kept most of the 1.2 million charities in the US from adding real estate to their fundraising portfolio. Only 2 percent of the $240 billion Americans gave in 2002 was real estate, according to the AAFRC Trust for Philanthropy in Indianapolis. The foundation indicates real estate donations are primarily directed to academic institutions.

So don't expect your community's soup kitchen to accept a major real estate donation. According to Mr. Arnoult, only medium to large nonprofits - think AARP and the United Way - are capable of handling these complex transactions. Most small nonprofits lack the financial and expert resources necessary, he says.

Yet Mr. Magnuson says the number of real estate donations stands to rise dramatically as more nonprofits diversify their fundraising activities in a tight economy. "Most organizations are reluctant to accept [real estate] donations because they're afraid it will be too difficult and it will take too long to benefit," he says. "That [reluctance] will change."

For potential real estate donors, Magnuson says having the right intention is critical. "Make sure you understand the many intricacies of planned giving, but understand that this is about giving to a charity. This should benefit everyone."

Many potential donors are often torn between willing their property to their children and donating it to charity, Ms. Lubick says. Such decisions, she says, take about a year, on average, for a donor to decide. "This is never an easy decision. Many homes have a lifetime of memories and that's hard for some people to give up."

To help with the decision, Lubick says the key is a slow approach that involves the family and time to reflect on the advantages of donating a home. "It's a way for a donor to have a lasting legacy and get some immediate benefits from it," she says.