How to Attract, and Close, the Right Real Estate Gifts

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How to Attract, and Close, the Right Real Estate Gifts

1. Why the growing attention to real estate gifts?
2. What real estate wealth looks like these days.
3. A profile of today's real estate donor.
4. A profile of today's real estate gifts.
5. Be aware of the full menu of ways to dispose of property.
6. Real estate gift structures – frequency of use.
7. Case Study #1: Charitable Remainder Trust funded with a Second Home.

Why, and How, to Pursue Real Estate Gifts During Challenging Economic Times

8. Case Study #2: Retained Life Estate.
9. Emerging Best Practices: Policies and procedures.
10. Emerging Best Practices: Marketing.
11. Emerging Best Practices: Initiating the real estate conversation.
12. Emerging Best Practices: Screening and due diligence.
13. Emerging Best Practices: Gift acceptance.
14. Concluding remarks.

1. Why the growing attention to real estate gifts?

Recent Trends

- Dramatic increase in marketing of real estate gifts.

  → 36% increase from Q3 2010 to Q3 2011 in web mentions of "real estate gifts."

- Anecdotally, considerable increase in real estate gift activity in the last 24 months.

- Gifts of cash and appreciated securities remain hard to come by – donors want to retain their liquidity.

- Development offices increasingly are turning their attention to real estate.

1. Why the growing attention to real estate gifts?

Recent trends

- There is an increasingly accepted set of best practices regarding real estate gifts.

- Many, many aging property owners are looking to dispose of property – *and only some of these properties are "dogs."*

1. Why the growing attention to real estate gifts?

Recent trends

- Large increase in coverage in professional journals and popular press.
- Growing variety of professional sources of assistance to turn to.
- Growing understanding that real estate is the single largest asset category for American households.

2. *What real estate wealth looks like these days*

Real estate is the single largest asset category for American households.

- Real estate assets comprise about 24% of the assets of U.S. households (Q3, 2011).

- Distribution of assets of U.S. Households, Q3, 2011:

Real estate	23.8%
Pension and life insurance reserves	20.4%
Equities, mutual funds, etc.	17.5%
Cash and cash equivalents	11.8%
Non-corporate business equities	10.9%
Bonds, other credit instruments	7.4%
Consumer durable goods	7.0%
Miscellaneous assets	1.3%

Source: Federal Reserve Board "Balance Sheet of Households and Nonprofit Organizations," Dec. 2011.

2. What real estate wealth looks like these days

Much of this Wealth Is in Second, Third, Fourth… Homes

- 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

2. What real estate wealth looks like these days

Much of this Wealth Is in Second, Third, Fourth… Homes

- For top 10% of households (by net worth), 62% of their real estate equity was in second homes and investment properties.

- *"Among property owners 50 and older, 18% of them will sell a piece of real estate in the next 18 months."*

  -- John Brown

Source: National Association of Realtors, 2005

3. A profile of today's real estate donor

Motivations of the Real Estate Donor

Availability of tax deductions	64%
Relief from headaches of owning/managing real estate	62%
Charitable intent	60%

Source: 2005 Survey of Membership of Planned Giving Group of New England

3. A profile of today's real estate donor

Composite Profile

- Age 65+
- Own multiple pieces of real estate, likely 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.

3. A profile of today's real estate donor

Composite Profile (cont.)

- Want to preserve their liquidity.
- Capacity to use charitable income tax deductions.
- Charitable motivation.
- May or may not have a strong giving record.
- May or may not show up on wealth screening.

3. A profile of today's real estate donor

Possible additional factors motivating the real estate donor

- Ownership and management of property more burdensome than enjoyable.
- Eager to dispose of a property, but wary of the listing process during volatile market times.
- Want to convert non-performing real estate holdings into supplemental retirement income
  - → e.g. CRT's at 5% and higher
  - → e.g. CGA's at 5.8% (for single 75-year-old) and higher

3. A profile of today's real estate donor

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

- Selling a business, or another property, which generates a capital gain in search of a tax offset.

- Want to resolve, once and for all, the future of a property so it won't be debated by the family for the next 20 years.

- Want to make a gift of a home, farm, or ranch now, but want to continue using the property for additional years.

4. A profile of today's real estate gifts

From 2007 Tax Returns

- $8.1 billion in real estate donations in 2007 (this includes $2.2 billion of conservation and façade easements).
  - → This is an increase of 37% from real estate donations in 2003.
- This giving constituted 3.5% of all individual giving in 2007.
- Average size real estate donation was $619,000.
- For real estate donors 65 and older (the bulk of such donors), the average real estate donation was $787,000.

Also:

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

Source: IRS, "Individual Non-Cash Charitable Contributions, 2007"; Statistical Abstract of U.S.

4. A profile of today's real estate gifts

Types of Properties Reported Given:

✓ Second/vacation homes and rental residential properties	30%
✓ Primary residence	20%
✓ Undeveloped land	17%
✓ 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

5. Be aware of the full menu of ways to dispose of property

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.
- Donate it outright, or by bequest, to charity.

5. Be aware of the full menu of ways to dispose of property

Property Disposition – Charitable Approaches

- **Outright gift**
- **Part sale, part gift**
  → Bargain sale (part donation, part taxable sale)
  → Fractional interest gift
- **Life income arrangements**
  → Charitable remainder trust funded by real estate
  → Charitable gift annuity
  → Installment bargain sale

5. Be aware of the full menu of ways to dispose of property

Property Disposition – Charitable Approaches

- **Continue using the property**
  → Donate remainder interest in property, retaining life estate

- **Life income and continued use of property**
  → Charitable gift annuity with retained life estate

- **Pass the property to heirs**
  → Charitable lead trust

- **Conserve the property**
  → Any of the above can be combined with conservation easement/restriction

6. Real estate gift structures – frequency of use

Real estate gift structures used very or somewhat frequently:

✓ Bequest	51%
✓ Outright	47%
✓ Charitable remainder trust	44%
✓ Retained life estate	27%
✓ Undivided/fractional interest	19%
✓ Charitable gift annuity	18%
✓ Bargain sale	11%
✓ Retained life estate/CGA	6%
✓ Charitable lead trust	5%

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

Fact Pattern for Case Studies

The Desmonds and Their Property

- Husband, 76, and wife, 74, New York City residents, own a country home in southern Berkshire County.
- Their two children have settled elsewhere in the country; are not interested in taking over the Berkshire Co. property.
- Purchased the property 25 years ago; tax basis is $600,000.
- Current fair market value has declined somewhat to an estimated $1,600,000.

Fact Pattern for Case Studies

The Desmonds and Their Property (continued)

- As NYC taxpayers, they have a combined income tax bracket of 36%; capital gains tax bracket of 25%.
- They would like to make a very meaningful gift to Coolidge College, the alma mater of Mrs. Desmond.
- They consider themselves charitably “tapped out” with regard to their other assets, but have not been approached by charities about their real estate holdings.

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

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

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

Real Estate CRT Issues

- No self-dealing
  - Can't occupy or use property owned by a CRT
  - Can't sell property to a relative
- No pre-arranged sale of the assets
- Options for trusteeing
- Donor may need to put some cash into the CRT to cover initial carrying costs

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

The Desmonds' Situation

- Ready to unburden themselves of ownership and management responsibilities.
- Want to unlock equity in their Berkshire County property, turn it into supplemental retirement income.
- Want to generate tax deductions.
- Want to make a significant gift to Coolidge College, ideally for scholarships.

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

Step by Step

- The Desmonds' CPA reviews the couple's objectives, and reviews options for their Berkshire Co. property.
- They discuss funding a Charitable Remainder Trust with the property, with the Desmonds as income beneficiaries.
- The remainder interest would go to Coolidge College to endow scholarships.
- The Desmonds approach Coolidge College, which is very interested in the prospect of such a gift arrangement.
- Initial information about the property reveals no obvious obstacles - no title issues, marketability seems OK, no obvious environmental issues..
- Coolidge proposes a 5% Charitable Remainder Flip Unitrust (CRUT)
- After exploring a range of trustee options with the Desmonds, Coolidge agrees to serve as trustee, primarily because the Desmonds do not want the hassle of marketing the property.
- The Desmonds agree to donate some cash to the trust if needed to cover property expenses pending sale.

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

Step by Step

- The attorney and CPA for the Desmonds are supportive of the proposed CRUT arrangement with the College.
- Coolidge makes initial gift acceptance decision – subject to due diligence.
- The Desmonds and the College sign a gift acceptance letter laying out all of the details of the gift arrangement.
- Rigorous due diligence checks out – Phase I environmental, further market investigations, building inspection.
- The College takes the lead in preparing CRUT document.
- The Desmonds appraiser prepares an updated qualified appraisal, at $1,600,000.
- Once the trust is established, and the property is conveyed, the College, as trustee, working with a local realtor, sells the property within six months for $1,500,000.
- The Desmonds trigger a charitable tax deduction of about $789,000 by funding the CRUT with their property.

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

Outcome

- In the current year and five carry-forward years, the Desmonds are able to use this deduction to shield ordinary income and the gain from sale of a family business and other assets.
- Capital gains taxes of about $250,000 are avoided.
- The entire net proceeds (after costs of sale) of $1,350,000 are invested by the College's investment manager.
- The Desmonds' annual trust income (after-tax) will range from about $41,000 to $49,000 for their joint lives, projected to be 16 years.

7. Case Study #1: Charitable Remainder Trust Funded with a Second Home

Outcome

Charitable deduction for donating $1,600,000 property to CRUT	$ 789,008
Tax savings over 6 years from use of deduction @ 36%	$ 284,043
Total trust payments over 17 years, after tax	$ 718,136
Total trust payments, present value	$ 631,361

Total financial benefit to Desmonds, present value $ 915,404

Total financial benefit for Desmonds is about 75% of what they would have netted from outright sale
PLUS: A remainder interest of about $ 1,145,000 will go to Coolidge College (present value of about $ 890,000)
PLUS: Removal of property from taxable estate
PLUS: The Desmonds might elect to purchase life insurance for their children with a portion of their increased cash flow.

8. Case Study #2: Retained Life Estate

Retained Life Estate Basics

- aka Reserved Life Estate, or donating a Remainder Interest
- Similar to outright gift, except one or more "life estates" are reserved for individuals named in the deed.
- Any residential (not just primary home) or agricultural property can be used.
- During the life estate, the "life tenants" maintain full use and control of the property, along with full responsibility for property taxes, insurance, and normal property maintenance. The life tenant may not, however, "commit waste" on the property and must comply with any conservation easement or other restrictions in effect.
- A clear written agreement between donor and charity should cover such matters as responsibility for major improvements, incapacity of the life tenant, vacating the property, etc.

8. Case Study #2: Retained Life Estate

Retained Life Estate Basics

- Allows continued use/occupancy of the property, as if nothing has changed.
- As opposed to a gift by bequest, the owner has the satisfaction and security of knowing the gift is completed in his/her lifetime.
- Generates a tax deduction at time of conveyance, if property is a farm, personal residence, or conservation property (unlike a bequest).
- Charity will gain full title and control of the property – subject to any restrictions involved – at time that life estate “matures” or is earlier released, and without the delay and expense of a probate proceeding.

8. Case Study #2: Retained Life Estate

The Desmonds' Situation

- Continue using the property for as long as they are able.
- Make arrangements now for transfer of their property, avoiding hassles of sale, and avoiding probate.
- Want to generate some current tax deductions.
- Want to make a substantial gift to Coolidge College.

8. Case Study #2: Retained Life Estate

Step by Step

- After reading about a classmate who donated a property to Coolidge, retaining a life estate, the Desmonds explore this option with the College and with their advisors.
- They agree that they will donate a remainder interest in their Berkshire County home to the College, retaining a joint life estate.
- They need to work out a retained life estate agreement with the College that clearly spells out responsibilities for repairs/improvements, that anticipates possibility of infirmity, etc.
- The College will eventually take possession of the property and sell it.

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Step by Step

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8. Case Study #2: Retained Life Estate

Outcome

Charitable deduction for gift of remainder interest	\$1,068,816
Tax savings over 6 years from use of deduction @ 36%	\$384,480

PLUS: Based on 16 year joint life expectancy, and 2.5% annual appreciation, the property could be worth over \$2,200,000 when the College takes possession and sells it.

8. Case Study #2: Retained Life Estate

Summary

- The Desmonds will use the property as long as they wish, as if nothing had changed.
- If they relinquish their life estate while still alive, they trigger an additional tax deduction.
- All disposition decisions are made now, the children won't have to worry about selling the house, and probate is avoided.
- The Desmonds are recognized now for their generosity.
- They generate a tax deduction worth about $385,000 to them.
- They've created a gift that is worth about $1,600,000, in today's dollars, to the College.

9. Emerging Best Practices: Policies and Procedures

Policies and Procedures

- Process of review/revision with key staff and board assures buy-in and all key players on the same page.
- Develop a streamlined-approach to the "who does what" of real estate gifts.
- Emphasize "user-friendly" approaches.
- Apply a real estate gift minimum on a net present value basis.
- Include the full menu of gift structure options, with clarity about conditions on each.

10. Emerging Best Practices: Marketing

They're not going to call you without some prompting

- Emphasize problem solving, understanding of the prospect's situation.
- Repeat the message in many forums – newsletter, annual report, emails, website, social media, etc.
- Case studies, especially real ones, are most effective.
- A prompt, user-friendly response when the call comes in is critical.

Do You Own **Property?**

Turning Their Deed Into a Good Deed

Donors: Hedda and Xavier Brock, AA '48

Gift: The Brocks donated their home of more than 50 years to GW through a Retained Life Estate.

Benefits: The Brocks received a charitable tax deduction for a large portion of their home's value, avoided capital gains tax on the appreciation, and the property is excluded from their taxable estate - all while they continue to live in their home as long as they'd like.

Why GW: "Xavier received a wonderful

- ❑ **Do you have property that is a burden to manage?**
- ❑ **Do you own property you don't use anymore?**
- ❑ **If you sell a property, will you owe significant taxes?**

If so, The George Washington University can help. By donating real estate to GW, you can achieve peace of mind, create a lasting legacy, and receive financial benefits for yourself or someone else.

What's in it for you?

Depending on the nature of your gift and your objectives, you could:

- Avoid capital gains taxes on appreciated property
- Eliminate the burden of maintaining and paying for the property
- Provide yourself with an annual income
- Continue to use the property for the remainder of your life
- Reduce your estate and income taxes
- Help the GW School or initiative of your choice

For more information, please return the coupon on the back cover or contact Chase Magnuson in GW's Office of Planned Giving.

11. Emerging Best Practices: Initiating the Real Estate Conversation

Better yet, don't wait for the call. Initiate the conversation.

- Make the right real estate gifts happen.
- Convene a small group to brainstorm donors and friends who fit the profile of a potential real estate donor.
- Do your research.
- Figure out who can best have the real estate conversation.
- Recognize that your prospect may very well welcome a conversation about the real estate issues facing them in the years (or months) ahead.

11. Emerging Best Practices: Initiating the Real Estate Conversation

11. Emerging Best Practices: Initiating the Real Estate Conversation

Start with your Board of Directors

- *"A real estate gift is sitting at the table at every Board meeting. It's just that no one has ever connected the dots."*
  -- *John Brown*

- A Board member or other friend of the organization may welcome a chance to serve as "poster boy" for real estate gifts for your organization.

- Your Board members are more likely than anyone to have a cocktail party conversation about a friend's real estate situation.

11. Emerging Best Practices: Initiating the Real Estate Conversation

Possible ways to introduce the real estate topic into conversation

- "Tell me about your plans for your Palm Beach home?"
- "Are you expecting to sell any of your properties in the next 18 months?"
- "I was recently at a conference where interesting real estate gift arrangements were discussed. I guess there's quite an increase in real estate gifts, as more families become aware of the different ways they can dispose of their real estate."
- "Gift planning work is really interesting. Lately I've been learning about different ways that property owners can use some of their real estate holdings to make gifts while addressing their tax planning and retirement planning issues."

11. Emerging Best Practices: Initiating the Real Estate Conversation

Possible ways to introduce the real estate topic into conversation (cont'd)

- "I've been working with someone lately on what to do with their summer home in Maine. They're considering giving it to their alma mater, but retaining the right to use it for the rest of their lives…"

- "We're working with a consultant who specializes in working with families to develop solutions for their real estate that involve a gift component while addressing their estate planning/retirement objectives."

- "Something that's been coming up with me lately is alums who are feeling a bit burdened by real estate they've owned for some time but aren't quite sure what to do with it."

12. Emerging Best Practices: Screening and Due Diligence

There are proven ways to identify and manage the risks of real estate gifts.

- Environmental risk is often exaggerated, based on ill-advised acceptance of a bad real estate gift years ago.
  - → Phase I environmental assessments are readily available and reliable.
  - → The trend is for the donee institution to pay for such assessments, as a cost of doing business.
- Liquidity and holding cost risks are real but manageable.
  - → Structuring alternatives such as options, simultaneous closings, etc. are available while avoiding "pre-arranged sale."
- Intelligent screening and rigorous due diligence: a two-step process makes sense.

12. Emerging Best Practices: Screening and Due Diligence

A two-step process works well:

- An initial go-no go based on preliminary inquiries and the information that can often be gathered in a 30-minute phone call.
  - → If there is a preliminary go-ahead and the donor appears committed, then proceed with the expenses of due diligence.
  - → If the initial answer is no, then the donor isn't kept hanging, and the non-profit can quickly move on to more promising gift prospects.
- If due diligence checks out, and all criteria are met, then final gift approval leads to gift closing.

12. Emerging Best Practices: Screening and Due Diligence

Critical Information for Initial Assessment (the 30-minute call)

- ✓ Property location and description
- ✓ Land and building area
- ✓ Current uses
- ✓ Abutting uses
- ✓ Any environmental issues
- ✓ Estimated value
- ✓ Recently listed?
- ✓ Potential buyers?
- ✓ Zoning
- ✓ Donor info.
  -- ages, ownership form
- ✓ Mortgage?
- ✓ Cost basis, roughly?
- ✓ Donor objectives
- ✓ Gift vehicle contemplated
- ✓ Purpose of gift

13. Emerging Best Practices: Gift Acceptance

The right letter at the right time in the process helps everyone

- Gift acceptance letter summarizes gift structure and conditions/contingencies.
- Letter provides roadmap for who does what in getting to gift closing and follow-up.
- Letter provides reminders to donor about appraisal responsibility, 8282 and 8283, legal/tax counsel, etc.
- Countersignature provides reasonable assurance for going forward.

14. Concluding remarks

- With gifts of cash and appreciated securities still hard to come by, pursuing real estate gifts makes sense for more and more non-profits.
- Good real estate gifts will come if you *ask*, if you have proper screening procedures in place, and if you have access to the right expertise.
- Use the entire menu of gift structure options available to solve your donor's real estate issues.

14. Concluding remarks

- Don't get caught in the chicken and egg dilemma.

- Take the modest steps necessary to gradually ramp up your real estate gift activity. It will pay off if you are patient.

Thank You.

Questions?

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