Land Trust Alliance, *Saving Land,* September, 2009

Real Estate Gifts: Worth Pursuing Now More Than Ever

By Dennis Bidwell

Nonprofit organizations of all sizes and shapes, including land conservation organizations, are paying increasing attention these days to the potential of charitable real estate gifts as the effects of the weakened economy ripple through development offices. Consequently, more and more nonprofits are transitioning from "accidental" donees to organizations that thoughtfully and intentionally seek out quality real estate gifts.

This shift in attention is due to several factors:

- Cash gifts—current or deferred—are hard to come by these days, whether as annual fund contributions or through campaigns for major projects such as land acquisitions. Fundraisers are therefore turning more of their attention to the non-cash assets of their private donors, especially their real estate assets. The recession is also causing professional advisors to suggest to their cash-strapped clients that they consider using some of their real estate wealth to fulfill their charitable objectives.
- Real estate assets comprise over 30% of the assets of U.S. households. Yet only about 3% of charitable giving in recent years has come from real estate gifts. Fundraisers are increasingly recognizing the need to go where the wealth is—the largely untapped potential of real estate—to attract support for their organizations.
- There are important lessons to be learned from those nonprofits that have consistently attracted large numbers of substantial real estate gifts. A survey conducted by the National Committee on Planned Giving (now the Partnership for Philanthropic Planning) reported that 13% of institutions responding received more than 10% of their total contributions as real estate gifts over the previous three years, as measured in dollars.
- An increase in real estate gift activity during these challenging economic times is being reported by nonprofits that market their interest in real estate gifts. This is due in part to the number of aging owners of vacation and rental properties who would rather donate their property to a favorite charity than navigate the uncertain waters of marketing their property in volatile real estate markets.

Land Trusts and Real Estate Gifts

Some and conservation organizations pursuing real estate gifts have the obvious advantage of having expertise in real estate transactions and risk management, as well as a clientele likely to own multiple pieces of real estate. On the other hand, land trusts face a potential public relations problem if they accept and sell a piece of land they regard as having little or no conservation value but is considered by some of their members to be worthy of protection. For this reason, it makes sense for land conservation organizations to focus on real estate gifts such as second (and third) homes and investment real estate such as retail and commercial properties. Of course, there is always the option of accepting a gift of land, protecting it with a conservation easement, then selling it at a restricted price.

Real Estate Gift Best Practices

A review of the experience of the nonprofits that have enjoyed considerable success in attracting real estate gifts reveals an increasingly accepted body of best practices that permit the opening of the doors to real estate gifts while carefully managing and minimizing the potential risks of real estate ownership.

Policies and procedures. Successful real estate gift programs tend to have clear gift acceptance policies and procedures governing real estate. These policies ensure that everyone in the organization is on the same page regarding the types of properties (residential, commercial, land with and without conservation merit, farms and ranches, etc.) that will be accepted and the gift structures (charitable remainder trusts, charitable gift annuities, retained life estates, bargain sales, etc.) that can be employed. These policies also tend to establish minimum real estate gift amounts. Also, it is important to be clear about which parties in the organization, as well as which outside sources of expertise, are involved in which aspects of the real estate gift review and approval process.

An initial screening process. The aim of the screening stage is to gather essential information about the property, the donor prospect, and the proposed gift structure as rapidly as possible in order to provide the prospect with a prompt indication of whether or not the institution wants to pursue the gift. Providing such an answer quickly not only avoids wasting a great deal of time and effort on the part of the donor prospect, but also ensure that the institution's staff is spending its time on the truly promising gifts.

Due diligence. For potential gifts that pass through such an initial screen, a period of due diligence—title investigation, environmental assessment, independent assessment of market value and marketability—then follows. Nonprofits are recognizing that in order to be in control of the due diligence process, as well as to be more "donor friendly," it makes good business sense to assume the costs of these investigations, rather than ask the donor to do so. (With the understanding that the donor needs to commission his or her own qualified appraisal to substantiate any tax deduction claimed for a real estate gift.)

Gift acceptance letter. When the nonprofit has decided to accept the proposed gift, it is good practice to communicate this decision to the donor in a detailed letter. Such a letter includes any conditions placed on the gift and any proposed alternative gift structures, as well as a "roadmap" of sorts detailing who needs to do what along the way towards a closing of the gift.

Steps to Attract the Right Real Estate Gifts

Staff and trustee training. Many organizations find it useful to conduct real estate gift training sessions for staff, board members and professional advisors close to the organization. The importance of briefing board members on real estate gifts cannot be overstated. After all, it is highly likely that they will come into contact with donor prospects (including fellow board members) who might mention, for example, plans to sell the family's summer home, thus making them candidates for follow-up gift conversations.

Research and personal visits. Surveys have shown that the single most effective way to stimulate real estate gifts for many organizations is to conduct donor research aimed at identifying prospects who own multiple pieces of real estate and are 65 or older, and then to arrange personal visits with such prospects during which their plans for the future of their real estate holdings are discussed.

Marketing. Land trusts and other organizations need to get the word out that they are interested in discussing real estate gift possibilities. Case studies in newsletters and mailings, website illustrations, special mailings, workshops for professional advisors, annual reports "advertising" an interest in real estate gifts—all these plant the seed that property owners can creatively dispose of surplus real estate holdings in ways that further the mission of the organization.

Conclusion

Real estate is the single largest category of wealth for many families, and is becoming increasingly interesting to fundraisers grappling with the challenges of a cash-strained fundraising environment. Real estate gift structures are also becoming more important to attorneys, CPAs, financial advisors and realtors looking to provide a full range of creative planning options to their clients. More and more nonprofits, including land conservation organizations, are determining that now is the time to start tapping in to the enormous real estate wealth transfer that surrounds them.

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