Real Estate Gifts: Twelve Trends

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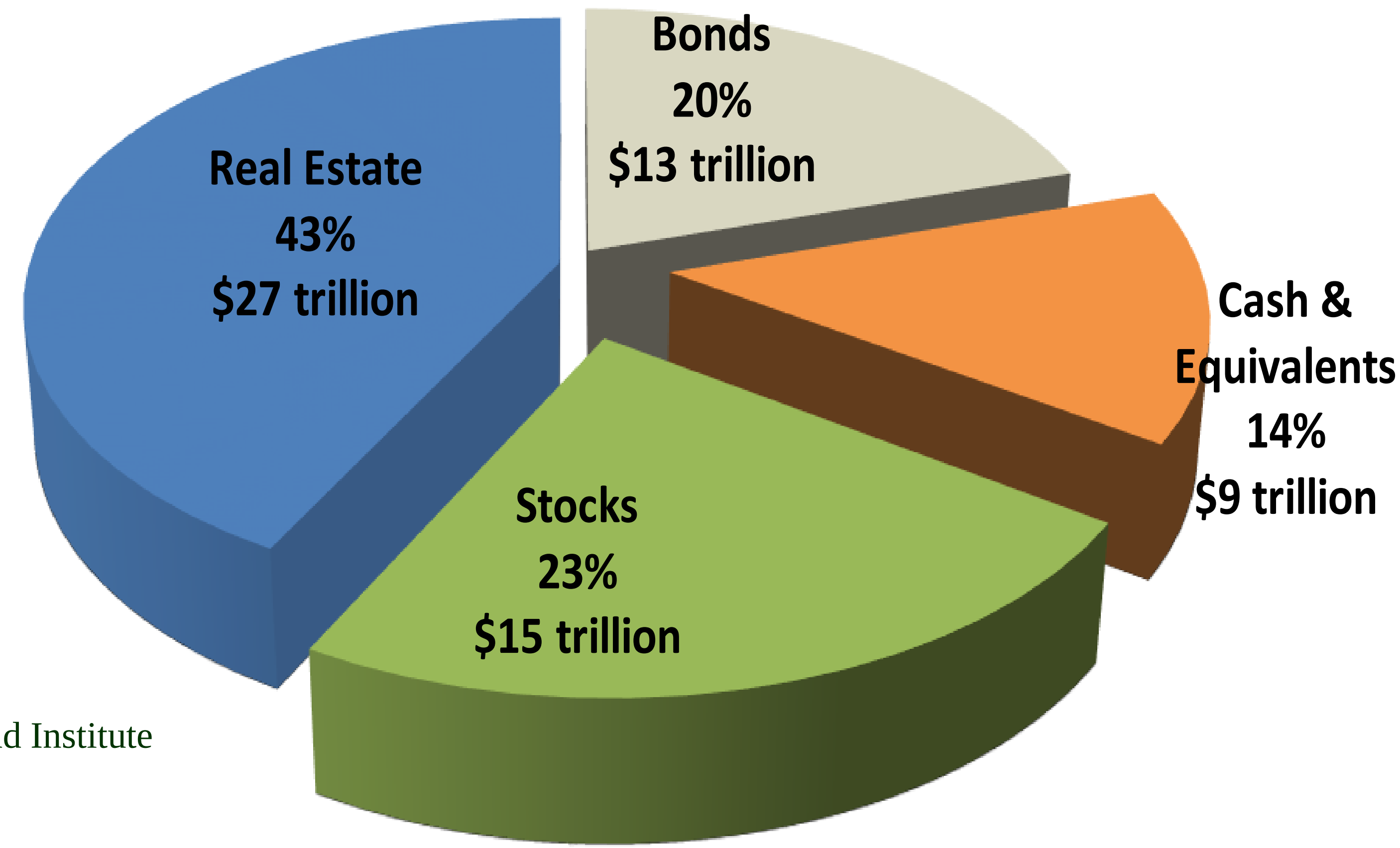
#1: Resistance to Real Estate Gifts is Fading

- Real estate gifts were never in “Fundraising 101”
- At many institutions, real estate gift resistance is based in part on the lore of the “horror story” gift years ago.
- That resistance to real estate gifts is fading as:
  - ✓ Peer institutions are increasingly seeking real estate gifts
  - ✓ Accepted best practices for real estate gift acceptance policies and procedures provide greater comfort
  - ✓ Recognition that the door can be opened to real estate gifts at same time as rigorous screening/due diligence procedures are applied
  - ✓ Growing attention to real estate gifts in journals, conferences, list serves, etc.
  - ✓ Old CFOs retire
  - ✓ Growing recognition of where the wealth is

The Big Picture

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



Source: Urban Land Institute

#2: Revising Real Estate Gift Acceptance Policies and Procedures

- Process of review/revision with the key staff and board produces buy-in, with all key players on the same page
- Develop a stream-lined and simpler approach to the “who does what” of real estate gifts
- Use a real estate gift minimum, on a net present value basis
- Include as much of the full menu of gift structure options as possible, with clarity about conditions on each
- Aims for rigorous screening and due diligence, but in a donor-friendly way

A donor-friendly 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

- In the second phase, if due diligence checks out, and all criteria are met, then final gift approval leads to gift closing

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

- Objectives in making the gift
- 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 arrangement contemplated
- Purpose of gift

#3: Increased Marketing and Outreach Concerning Real Estate Gifts

- They’re not going to contact you without some prompting
- Smart marketing generally emphasizes problem solving, understanding the prospect’s situation.
  - ✓ Generally, does not emphasize specific gift vehicles.
- Case studies are especially effective
- Repeat the message in many forums – newsletter, annual report, emails, social media, etc.
- Add a real estate gift check-off box to literature.
- Give greater prominence to real estate as a separate category on webpage.

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.

Opportunity Knocks: **Real Estate Gifts**

QUICK LOOK:

What: An outright and irrevocable gift of property to Dartmouth-Hitchcock or the Geisel School of Medicine

Who: Anyone who owns property, including a home, vacation home, farm, or land

Why: To support the future of Dartmouth-Hitchcock or the Geisel School of Medicine, and to enjoy potential tax benefits

How: Choose one of a number of options to meet your personal short- and long-term needs

Dartmouth-Hitchcock | GEISEL SCHOOL OF MEDICINE AT DARTMOUTH

3/20/13 1:22 PM

#4: Initiating the Real Estate Conversation

Initiating the real estate 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."

Initiating the real estate conversation

- "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."

#5: Greater Understanding of the Profile of Typical Real Estate Donors

- 90% of real estate donors fit the profile:
  - ✓ 65 or older
  - ✓ Own multiple properties in multiple states, especially summer/vacation homes
  - ✓ These properties are very rarely mortgaged
  - ✓ At a point in their lives where simplifying, cutting back, is important
  - ✓ Children have moved away or are uninterested in the summer home
  - ✓ No children, or children are taken care of in estate planning
  - ✓ May or may not have a substantial giving history
- Research can identify who these people are.
- Some organizations will identify their top ten real estate gift prospects and arrange visits, initiating the conversations.

#6: Real Estate Gift Training for Major Gift Officers, and Follow-Up

- Every gift officer should recognize a real estate gift opportunity when it's in front of them.
  - ✓ And should know how to respond, and what to do next.
- More and more gift officers initiate conversations about real estate with prospects, armed with good research.
  - ✓ And knowing they've got backup in the PG office.
  - ✓ Donor prospects are more likely to welcome such a conversation than to resent it.
- Follow-up the training with real estate brainstorming sessions every six months
- Build real estate gift conversations and real estate proposals into the metrics for gift officer performance evaluation.

#7: Involving the 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
- Real estate gift trainings/orientations at Board meetings, or meetings of the Development or Campaign Committees, are increasingly common.
- Board members are more likely than anyone to have a cocktail party conversation with a friend thinking about "selling the place on Nantucket."
- A Board member or other friend of the organization may welcome a chance to make a leadership gift and serve as a "poster boy" for real estate gifts.

#8: Real Estate in Capital Campaigns

- More campaigns are building a real estate strategy in from the start.
- Many campaigns are premised on returning to donors who think they've made their final gift. *Sometimes real estate is the way to reengage those donors.*
- Some campaigns, when stalled, have regained momentum by targeting real estate gifts.

#9: More Non-Profits are Covering All the Costs of Due Diligence

- If the gift passes initial screening, and if there's value there, it's a business decision whether to invest in due diligence costs.
  - ✓ This is where a gift minimum based on net present value of the gift is important.
- More charities are paying for Phase I environmental assessments:
  - ✓ Donors expect it
  - ✓ It leaves the charity in control
  - ✓ It's a risk management expense similar to title insurance.
- Donors still pay for their qualified appraisal.

#10: Increase in Real Estate-Funded CGAs

- It's a response to market realities
  - ✓ Property owners seeking income back from donating property are often looking for fixed return, not the variability of a CRT
- There are accepted techniques for managing liquidity and carrying-cost risk
  - ✓ Use of option agreements and simultaneous closings
  - ✓ Pre-marketing of the property
- Generally, CGA face value equals donor's appraised value. Adjustments are made on the payout rate.
- Donors understand that their CGA payout will need to be based on conservative projections of what the charity will net after sale.

#11: Increase in Retained Life Estates

- Perhaps the most underutilized real estate gift structure in relation to the situations for which it is appropriate.
- One of the best “ bequest acceleration” techniques there is.
- Any residential property (not just primary residence) and any agricultural property (broadly defined) is eligible.
- If there is a bequest intention involving a property, a conversation about the retained life estate alternative always makes sense.
  - ✓ Can’t assume the attorney/CPA/financial advisor will suggest it.

Comparing a bequest of property with a lifetime gift subject to a retained life estate

	Bequest	Retained Life Estate
Continued use of property	Yes	Yes
Continued responsibility for taxes, repairs, etc	Yes	Yes
Removal of asset from taxable estate	Yes	Yes
Charitable income tax deduction	No	Yes
Recognized now for generous gift?	No	Yes
Asset avoids probate process	No	Yes
Decision is	Revocable	Irrevocable

- A carefully drawn side agreement is essential, covering all the basics, and:
    - Incapacity, vacating the property, etc.
    - Capital improvements
- When the donor is certain of their intentions, and they have other financial resources, they are leaving big dollars on the table by not pursuing the retained life estate alternative.

Retained Life Estate IRS Deduction Percentages (approximate)

Single Life	%	Joint Lives	%
56	43 %	56, 54	32 %
66	57 %	66, 64	45 %
76	70 %	76, 74	60 %
86	82 %	86, 84	74 %
96	90 %	96, 94	85 %

Assumed discount rate: 2.4%

#12: Don't Overlook the Outright Gift

- By far and away the most common real estate gift.
- Never underestimate the capacity or the motivation of a donor to make an outright gift of real estate.
  - ✓ That motivation often includes keeping it simple.
- Maximum possible benefit for the institution, and maximum possible tax benefits for the donor.
- Planned giving professionals too often jump to more complicated solutions, e.g. CRT, making the assumption that income to the donor is important.

#13: Working with Conservation-Minded Property Owners

- Many institutions have aging donors with conservation-worthy property.
- Such donors typically would not consider donating their land to a non-profit, assuming the non-profit would sell for highest and best use.
  - ✓ Which is generally true.
- The alternative is for the institution to partner with a land trust or government agency to structure a two-part transaction:
  - ✓ First the property owner donates a conservation easement/restriction to the land trust. And probably donates a cash stewardship endowment gift also.
  - ✓ Second, owner donates the easement-encumbered property to the done organization.

- The non-profit recipient of the gift, as part of due diligence, must be assured of marketability of easement-encumbered property.
- Donor receives essentially the same charitable contribution tax deduction either way.
    - ✓ In the easement scenario, the sum of two deductions equals the deduction for an outright unencumbered gift.

Questions?

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