Toward a More "Purposeful" Real Estate Gifts Program

By Dennis Bidwell

More and more non-profits are becoming aware that they are not seeing the volume of real estate gifts experienced by some of their peers. They are realizing that other organizations have enjoyed considerable success in attracting a portion of the estimated 30 percent of the nation's private wealth that is in real estate holdings.

Some organizations' development operations have responded by transitioning over time from a program that occasionally accepts gifts of real estate in various forms, to one that more purposefully seeks to make the right real estate gifts happen. This transition needs to occur, of course, while taking appropriate precautions to manage the various types of risk (environmental, liquidity, holding cost) that can be associated with owning real estate.

A review of the experience of those non-profits that have successfully made this transition reveals several important steps in developing a more active and lucrative real estate gifts program.

Get the key players on the same page

Successful programs tend to have clear gift acceptance policies and procedures governing real estate. These policies assure that everyone in the organization is on the same page regarding the types of properties (residential, commercial, farms and ranches, undeveloped land, etc.) that will be accepted and the gift structures (CRTs, CGAs, retained life estates, bargain sales, etc.) that can be employed. These policies also tend to establish minimum gift amounts that take into account, one way or another, the often time-consuming and costly process of structuring, analyzing, and closing gifts of real estate. Also, it is important to be clear about which parties in the organization (planned giving staff, treasurer's office, general counsel, board development committee), as well as which outside sources of expertise, are involved in which aspects of the real estate gift review and approval process.

It is often very helpful to gather in one place all of an institution's key players with responsibility for real estate gifts in order to refine these gift acceptance policies and procedures. Such a working session can provide an opportunity for all to express their worries and reservations – which exist in some form in almost every institution – and then to share information and devise due diligence and approval procedures that address those concerns. What emerges is often not just a set of clear policies and procedures, but an enhanced appreciation for the potential of real estate gifts, as well as streamlined relationships for facilitating such gifts in the future.

<u>A two-stage review process</u>

Increasingly, non-profits are adopting more “user-friendly” postures with regard to potential real estate gifts. One way this new attitude comes across is by adopting a two-stage process for reviewing such gifts.

The aim of the first 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 your 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 assures that your institution’s staff is spending its time on the truly promising gifts.

For potential gifts that pass such an initial screen, a period of due diligence then follows. It is generally at this point that the donor prospect is asked to provide much more extensive information and documentation about their property and their financial situation.

The key elements in a due diligence process designed to identify, manage, and minimize risks generally consist of the following:

1) title investigation with the assistance of a local real estate attorney;

2) a Phase I environmental assessment, with follow-up as needed;

3) an independent assessment of local market conditions and the property’s market value (usually stopping short of a full-blown qualified appraisal); and

4) a building inspection (if appropriate), along with a personal visit by a representative of the institution.

Moreover, non-profits 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.

Gift acceptance letter

Once the committee charged with assessing potential real estate gifts has reviewed the various documents generated in the due diligence process and has agreed to accept the gift, it is generally good practice to communicate this decision to the donor in a detailed letter. Such a letter would include 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.

Property disposition

Since the vast majority of real estate gifts are accepted with the intent of liquidating the property as quickly as possible (as opposed to gifts accepted for the ongoing use of the non-profit in furtherance of its mission), it usually makes sense to retain a local real estate broker to handle the listing and sale of the property.

Staff and trustee training

Once there is agreement within the institution on the types of real estate gifts that will be accepted, as well as the process for analyzing and accepting such gifts, many organizations find it useful to conduct real estate gift training sessions for development staff and board members. These sessions should include everyone who may enter into conversation with a donor prospect about a gift of real estate. 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.

Marketing

When there is awareness at the staff and board level of the “profile” of the likely real estate donor, as well as concurrence on the types of real estate gifts to be accepted, organizations often choose to get the word out that they are interested in discussing real estate gift possibilities. Case studies in newsletters and mailings, web site illustrations, special mailings, workshops for professional advisors, annual report "advertising" – these and other marketing vehicles should be used to plant the seed for friends of your organization who are seeking creative ideas about how they might use their surplus real estate holdings to further the mission of the organization.

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. It may take some time before gift officers at your organization develop a comfort level in initiating such conversations, but this is clearly a highly effective way to develop real estate gifts.

Conclusion

Real estate is an important source of wealth for many donors. While gifts of real estate are inherently more complex and risky than gifts of cash or publicly-traded securities, we have shared some proven steps your organization can take to manage this complexity and risk. Once your organization has put in the work to have agreed-upon policies and procedures in place for handling real estate gifts, it will be more prepared to attract and close lucrative real estate gifts.