

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



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

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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 especially appropriate for these times.

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

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7. Emerging Best Practices: Policies and procedures.
8. Emerging Best Practices: Marketing.
9. Emerging Best Practices: Initiating the real estate conversation.
10. Emerging Best Practices: Screening and due diligence.
11. Emerging Best Practices: Gift acceptance.
12. It's not rocket science. Just get started!

# *1. Why the growing attention to real estate gifts?*

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## *Recent Trends*

- Recent surveys show much greater receptivity to real estate gifts.
- 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.

# 1. *Why the growing attention to real estate gifts?*

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## *Why?*

- 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.
- 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?*

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## *Why?*

- Large increase in coverage in professional journals (e.g. *Journal of Gift Planning*, fall 2008; Planned Giving Design Center) 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*

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### ***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*

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### ***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*

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### ***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*

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#### *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*

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#### ***Composite Profile***

- Age 65+
- Own multiple pieces of real estate, perhaps 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*

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#### ***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*

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#### *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 5.0% (for single 69-year old) and higher

### *3. A profile of today's real estate donor*

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#### ***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*

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### ***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*

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### ***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 or ways to dispose of property*

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### ***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 or ways to dispose of property*

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### ***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 or ways to dispose of property*

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### ***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 especially appropriate for these times*

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### ***Real Estate Gift Structures Especially Appropriate Now:***

- Outright gifts.
- Charitable gift annuities.
- Retained life estates.
- Fractional interest gifts and bargain sales.

# 7. *Emerging Best Practices: Policies and Procedures*

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## *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.

## 8. *Emerging Best Practices: Marketing*

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*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.



## *9. Emerging Best Practices: Initiating the real estate conversation*

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***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.
- Arrange the meeting!
- Recognize that your prospect may very well welcome a conversation about the real estate issues facing them in the years (or months) ahead.



## 9. Emerging Best Practices: Initiating the real estate conversation

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## 9. *Emerging Best Practices: Initiating the real estate conversation*

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### **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.

## *9. Emerging Best Practices: Initiating the real estate conversation*

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### *Possible ways to introduce the real estate topic into conversation*

- “Tell me about your plans for your ranch in Routt County?”
- “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.”

## *9. Emerging Best Practices: Initiating the real estate conversation*

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### *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 vacation home in Arizona. 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.”

## *10. Emerging Best Practices: Screening and due diligence*

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*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.

## *10. Emerging Best Practices: Screening and due diligence*

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### *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.

## *10. Emerging Best Practices: Screening and due diligence*

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### ***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

## *11. Emerging Best Practices: Gift Acceptance*

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*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.



## 12. *It's not rocket science. Just get started!*

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- 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.

## *12. It's not rocket science. Just get started!*

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- 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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