

Case Study: Real Estate-Funded Charitable Gift Annuities at Retirement Communities

By Dennis Bidwell

Take-aways from these gift scenarios:

1. **Real estate-funded CGAs are attractive to many property owners wary of variable CRT payouts.** Also, the relative simplicity of a CGA contract, compared to a lawyer-intensive CRT document, is appealing to many donors.
2. **Many residents of non-profit retirement communities continue to own property—often a vacation home—long after they have moved in to their new community.** And many of these residents, as they move in to their eighties, are attracted to the prospect of having someone else assume responsibility for marketing their property.
3. **For non-profits, there are proven ways to manage the risk of CGAs funded with real estate.** Besides deferring the CGA one or more years and making prudent adjustments to payout rates, the use of option agreements, pre-marketing and other techniques are available as risk-management approaches.

In recent years Kendal Charitable Funds (KCF), formed to support the charitable purposes of the Kendal network of non-profit retirement communities, has been offering to help communities structure, process and close real estate gifts, including charitable gift annuities. The marketing undertaken by Kendal has recently produced two real estate-funded CGA gifts that have worked out well for all involved.

The Wallaces (not their real names), residents of a mid-west Kendal community, had arrived at a point in their lives where continued ownership of their vacation home in North Carolina was more trouble than enjoyment. With the agreement of their three children, they approached their Kendal community about donating their property in exchange for income for life. KCF, working with the Wallaces, determined that the property was marketable and devoid of environmental issues. Based on the Wallaces' appraisal and local market investigations, KCF and the family agreed on the terms of a one-year deferred charitable gift annuity. The face amount was based on the donors' appraisal, but the rate was discounted from ACGA-recommended rates based on a conservative estimate of marketing time, holding costs and eventual sales price. Fortunately, an abutting

property owner stepped forward to express interest in the property, and KCF sold it to him without incurring brokerage costs.

When all was said and done, the Wallaces were able to turn over the marketing of their property to KCF, they began receiving their promised quarterly annuity payments one year later, they received a substantial income tax deduction, and they have the satisfaction of knowing they have made a very generous contribution to their Kendal community. At the time the CGA matures, Kendal Charitable Funds will remit to the Kendal community the balance in the CGA account, less the expenses incurred in structuring the gift at the outset.

A short time later, the Bigelows (not their real names), residents of mid-Atlantic Kendal community, expressed interest in donating their near-by home to Kendal in exchange for annuity payments for life. Market investigations revealed that the home might require some investment before sale, and might represent somewhat of a marketing challenge. All of this was factored in to the discounted CGA rates agreed to by the parties. As with the Wallaces, the CGA was deferred one year, with a face value equal to the appraisal commissioned by the owners. Despite deteriorating market conditions, a good local broker was able to obtain a buyer for the property, long before the first annuity payments to the Bigelows were due. The Bigelows were relieved to have KCF handle the marketing of their property, and were delighted to make a substantial gift resulting in lifetime income and a tax deduction. As in the case of the Wallaces, KCF will remit the balance in the CGA fund, net of expenses, to the local Kendal community at the time the CGA has matured.

Kendal Charitable Funds and the Kendal communities expect that the example set by the Wallaces and the Bigelows will motivate other Kendal residents to consider similar gifts.