

Realty Gift Fund

Charitable Gifts of Real Estate

Gifts of Real Estate – Part 1



Land Trust Alliance
August 25, 2020

KEY TAKEAWAYS

Mindful Philanthropy Earns Donor Loyalty. Deliver More... Receive More

- Strengthen Relationships = Capture the Current Generation, Retain the Next

“Gifting of Noncash Assets” is The Hottest Topic in Fundraising Conferences

- Endowments grow at 5 times the rate (see Russell.James@TTU.edu)

The Shift to Real Estate Giving is a Major Focus at the Board Level

- The most significant opportunity and essential to growth and sustainability

Gifts of Real Estate Should Make Up 10% - 25% of Total Annual Fundraising

For Land Trusts, the Shift to “Trade Lands Giving” can be Easy and Risk Free

HOW WE CAN HELP LAND TRUST ORGANIZATIONS

Major Gifts

- Average Real Estate Gift is \$600,000

Planned Giving

- Retained Life Estates
- Charitable Annuities
- Charitable Trusts
- Even with debt encumbered property

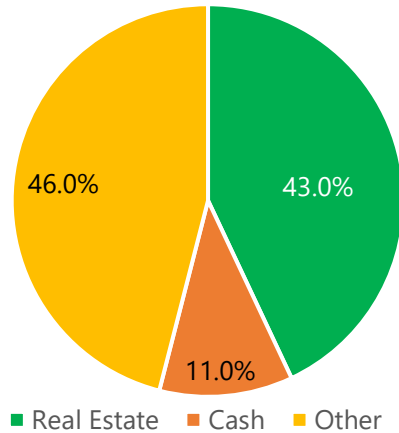
Vetting and Assignment of Bequests

Merger of Title Issues

- Easement Donors who wish to gift the Fee Interest

The Birth Story of Realty Gift Fund – “Real Estate Underperforms”

~ 43.0%
of America's Wealth

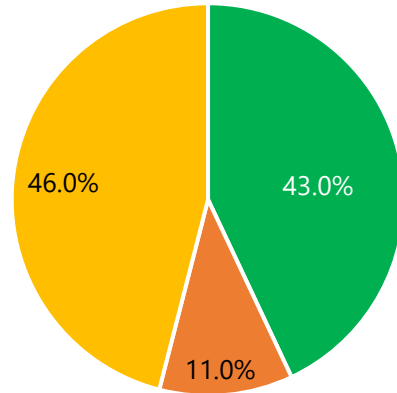


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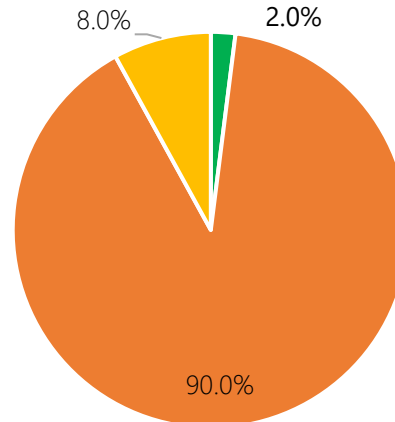
~ 43.0%
of America's Wealth

YET
ONLY

~ 2.0%
of Total Charitable Giving



■ Real Estate ■ Cash ■ Other



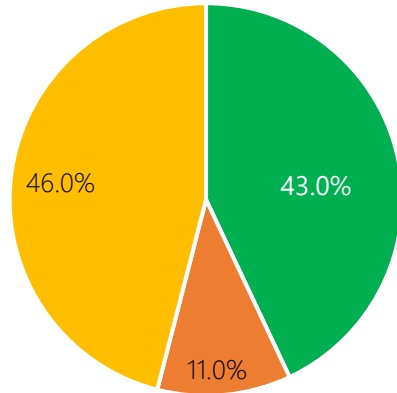
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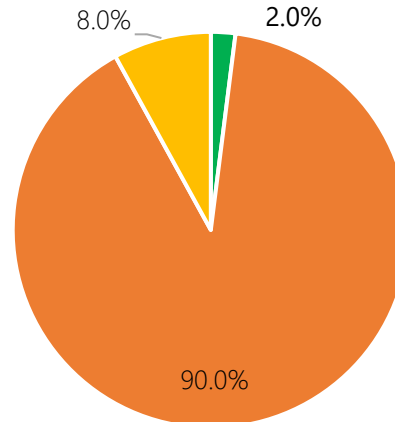
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ACTUAL CHARITABLE GIVING

2019

OVER

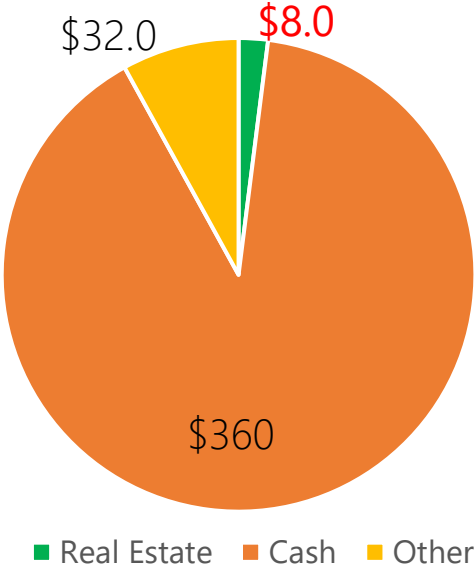
\$400B

REAL ESTATE

\$8B

Size of the Opportunity

2019 GIVING
Over \$400 Billion



ACTUAL CHARITABLE GIVING

2019

OVER

\$400B

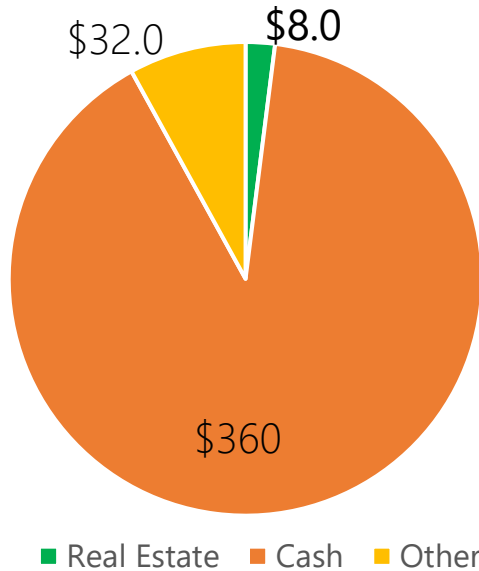
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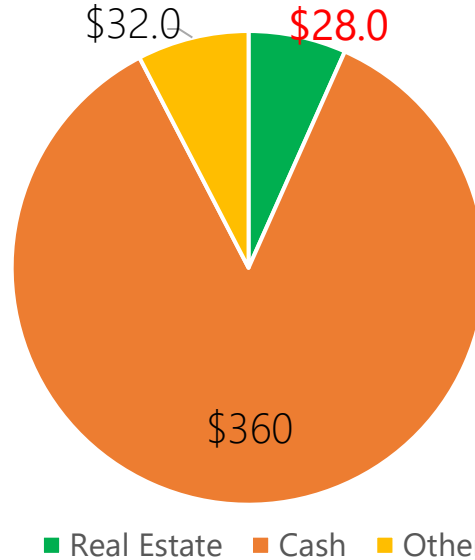
Size of the Opportunity

from 2.0% to ~7.0%

2019 GIVING
Over \$400 Billion



NEW MONEY
\$20 Billion



Key Stakeholders

DONORS

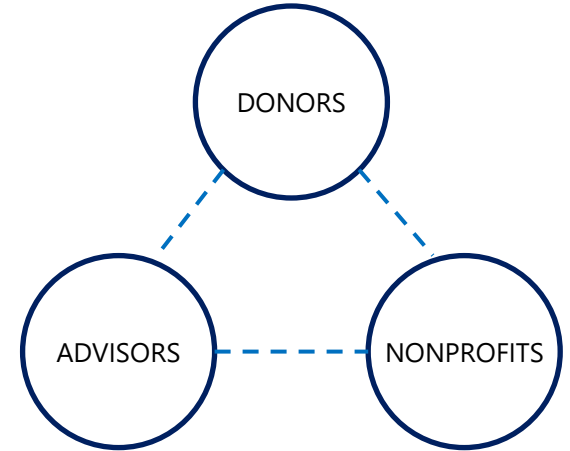
*Private Individuals
Corporations*

NONPROFITS

*Public Charities
Donor Advised Funds
Life Income Tools*

ADVISORS

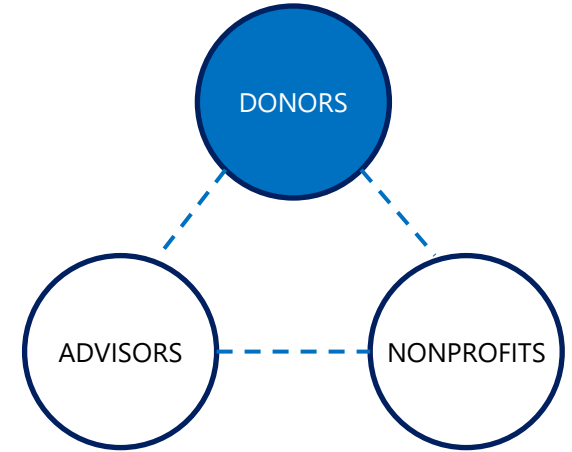
*Tax Accountants
Tax Attorneys
Financial Advisors
Wealth Managers
Insurance Brokers
Real Estate Brokers*



Key Stakeholders – Donors Say “Yes” (Increasingly Aware)

Donors are eager to gift appreciated assets

- Tax Reduction (avoid capital gain tax)
- Tax Deduction (receive tax deduction at appraised value)
- Preservation (retain liquid assets v. complex assets)
- Simplification (remove complex asset from estate)
- Estate Transfer (align portfolios for easy generational transfer)
- Convenience (avoids the prep and tedium of sale process)
- Receive a Partial Cash Payment



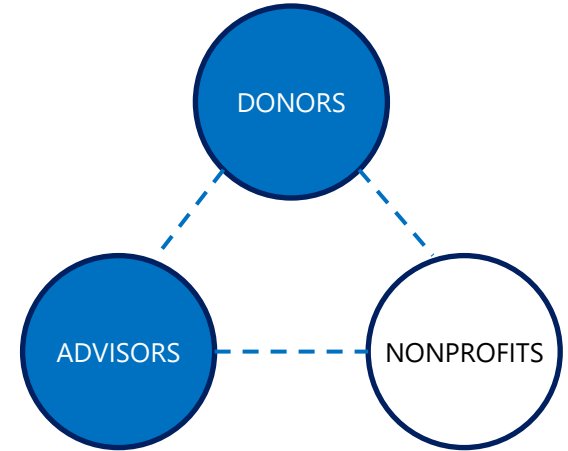
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Advisors are willing to recommend

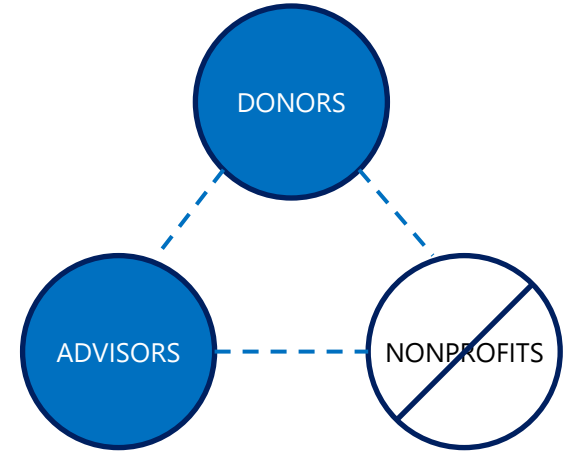
- Retain Current Generation (Sophisticated Outcomes)
- Capture the Next Generation (Donor Advised Funds)
- Grow Fee Based Investments (Convert Hard Assets to Cash)
- Earn Transaction Fees (Insurance & Real Estate)



Key Stakeholders – But...Most Nonprofits Must Say “No”

Most Nonprofits don't even ask for gifts of real estate

- Blocked by restrictive gift acceptance policies
- Too complex
- Too much risk
- Lack of allowable funds
- Lack of expertise
- “Mission Drift”
- Bad experiences haunt from the past

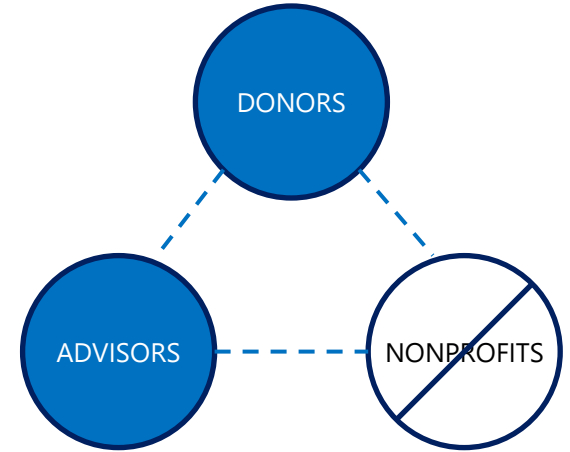


Key Stakeholders – But...Most Nonprofits Must Say “No”

*“We took a gift of real estate once...
...and we’ll never do it again.”*

“We accept real estate...”

- ✓ *...But on a limited basis...*
- ✓ *...Never if it involves cash payments...*
- ✓ *...“No” to most offers...*

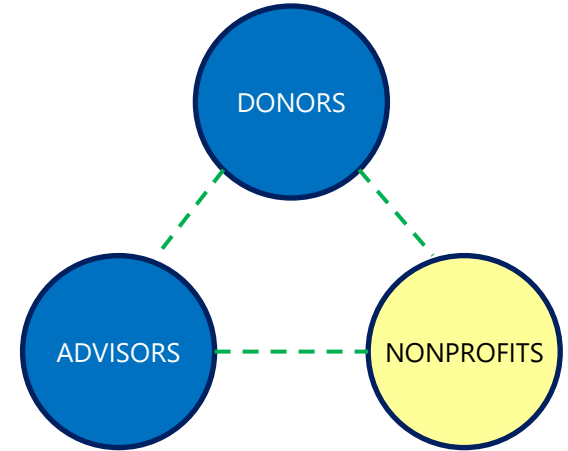


Blocks The Market

The Awakening

Noncash vs. Cash - Changing Acceptance Policies

- “Endowments grow at 5 times the rate”
(Russell James – Philanthropy Researcher, Texas Tech)
- “Donors give 3 – 7 times more. Asset Rich/Cash Conservative”
(Jackie Franey – The Nature Conservancy)
- “Donor lists grow slowly. Switching to a new type of asset is instantaneous”
(Matt Hutter - University of Oregon)
- “We want to use real estate to fund charitable gift annuities, charitable remainder trusts, & life estates (planned giving)”
(Gordon Smith – National Jewish Health)

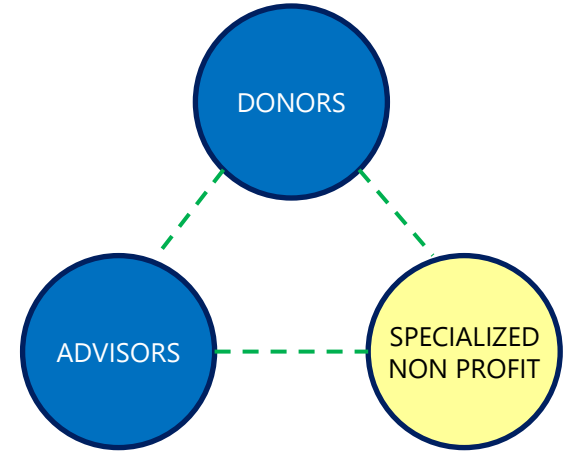


The Solution – The Specialized Nonprofit

Mission –

To promote the charitable giving of real estate by accepting real estate gifts of any kind, anywhere... fixing or remediating assets, converting them to cash... using the net proceeds to make grants to other non-profit organizations for current and planned gifts.

Through grants and educational efforts, make a meaningful impact on charitable giving through gifts of real estate.

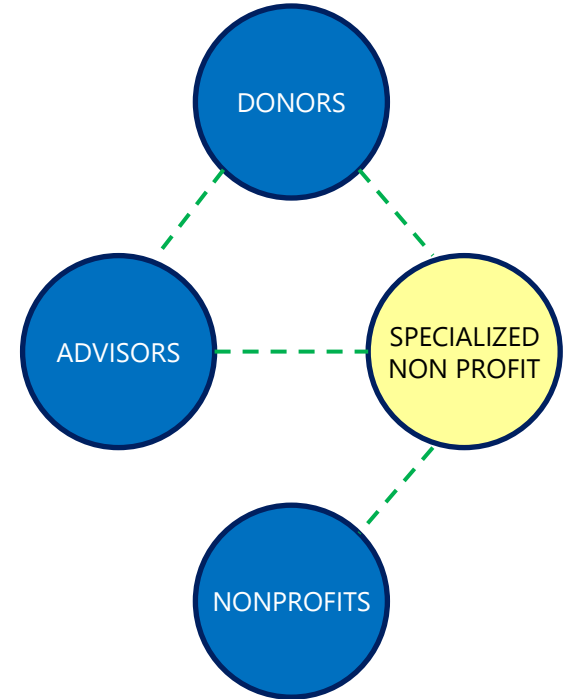


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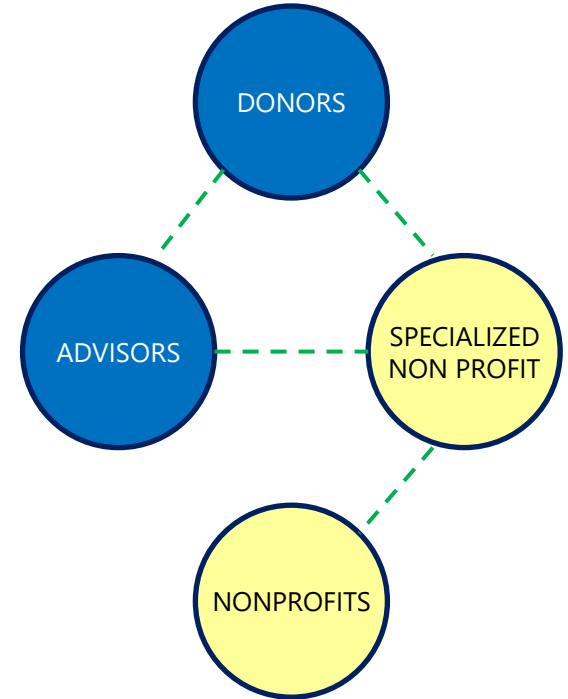
Collaboration - *"Do What You Do Well"*

Nonprofits

1. Promote the cause
2. Cultivate the emotional connections
3. Share the benefits of noncash gifts
4. Avoid "Mission Drift"
5. **Collaborate** with the Specialized Nonprofit
6. **Start Asking** for gifts of real estate

Specialized Nonprofit

1. Intervene on behalf of all stakeholders
2. Provide the resources all gifts of real estate require
3. Tackle the complexity of the entire gift cycle
4. Grant the bulk of net proceeds to other nonprofits



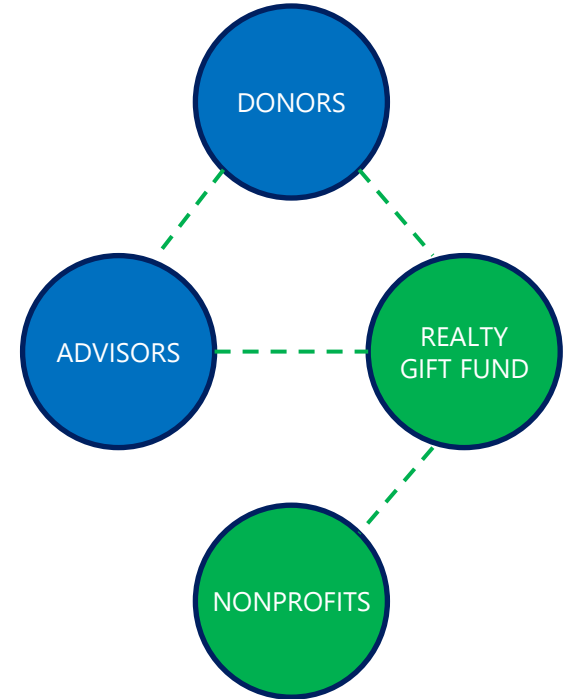
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Realty Gift Fund

1. Intervene on behalf of all stakeholders
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The Complete Gift Cycle

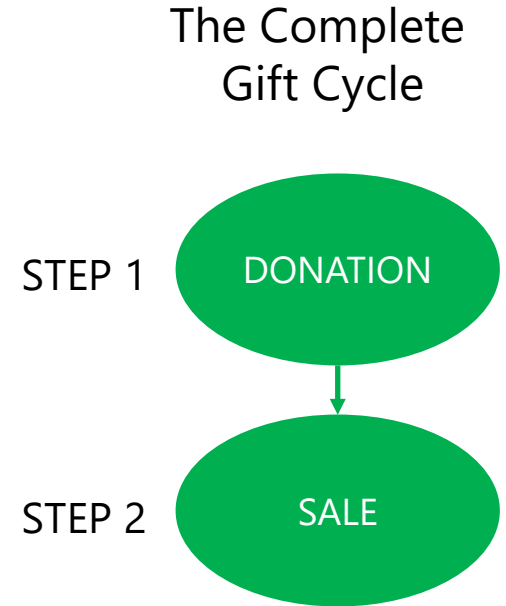
Two Steps

1. Donation (the **Charitable Gift**)

- Align donation agreement to donor's goals
- Conduct due diligence
- Accept donation
- Deliver cash & tax benefits to donor

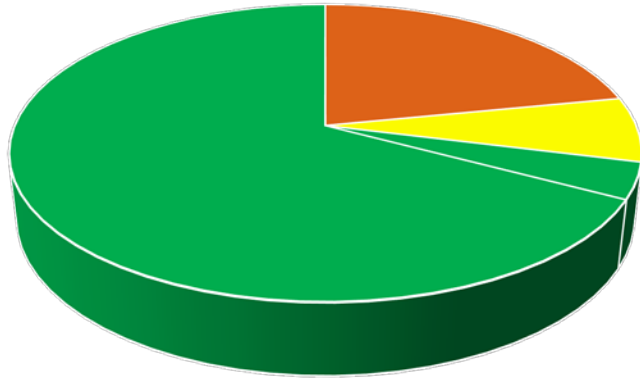
2. Sale (the **Charitable Funds**)

- Manage title/financial risk until the asset is sold
- Position property for sale
- Sell property
- Grant net proceeds to other nonprofits



How It Works

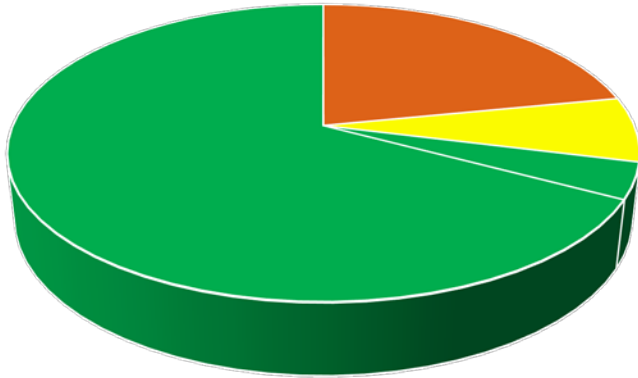
NET GIFT ESTIMATE



Current Appraisal	100.0%	675,000	
Charitable Gift	80.0%	540,000	Not Taxable + Tax Deduction
Cash Payment	20.0%	135,000	Taxable (on prorated basis)

How It Works

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Due Diligence 500

Acquisition Costs 2,500

Holding Costs 500

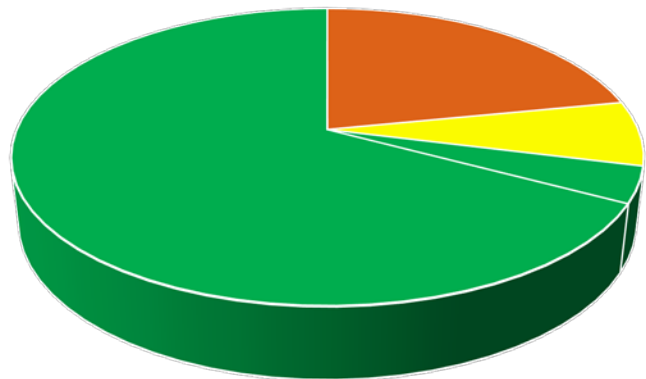
Repairs/Improvements 1,500

Marketing/Other 0

Donation Costs 140,000

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Due Diligence 500

Acquisition Costs 2,500

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Donation Costs 140,000

Sale 94.8% 640,000

Return Donation Costs 140,000 **Reimburse Donation Costs**

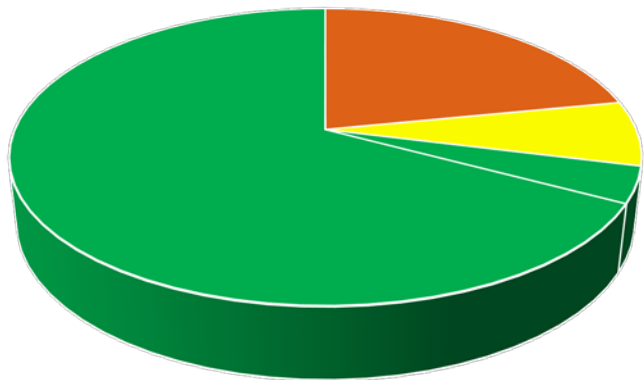
Sale Costs 45,000

Other Costs 0

Net Proceeds 455,000

How It Works

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Cash Payment	20.0%	135,000	Taxable (on prorated basis)
Due Diligence		500	
Acquisition Costs		2,500	
Holding Costs		500	
Repairs/Improvements		1,500	
Marketing/Other		0	
Donation Costs		140,000	
Sale	94.8%	640,000	
Return Donation Costs		140,000	Reimburse Donation Costs
Sale Costs		45,000	
Other Costs		0	
Net Proceeds		455,000	100.0%
Retained by RGF		35,000	7.7%
Granted to Other NP(s)		420,000	92.3%
Charitable Funds		455,000	Net Funds to Nonprofits

How to “Ask” and “Respond” – Keep It Simple

The 80/20 Rule

- 80% of your larger gifts come from 20% of your potential donor list
“More than half of fundraising comes from your board and leadership donors” – David Allen

“What Gets Measured Gets Done” – Peter Drucker

- Major Gifts and Planned Giving comes from actual relationships
- Prepare a formal list for one-on-one phone calls, face-to-face/zoom meetings

How to Introduce the Topic- The 4 S’s: “Story, Story Story...Shut Up”

“I heard an interesting story last week. Let me share it with you”

How to Respond to an Inquiry

*“Thank you for your generous suggestion.
Let me get my real estate team on the phone with us”*

Story 1 – “Multiple Nonprofits Share One Gift” - Ft. Collins, CO

Donor

- Clear charitable strategy
- 1,500 square foot Single Family Home, rented to CSU students
- \$135,000 mortgage.
- Dedicated to conservation community and targeted multiple charities

Realty Gift Fund

- Accepted gift based on \$360,000 appraisal
- Paid \$135,000 to pay off debt + \$5,000 to mitigate radon and mold
- 2018 donation & tax deduction
- 2019 sale. Generated \$180,000 in net proceeds (“Net Gift”)
- Start to finish in 87 days benefitting 5 nonprofits

Story 2 – “Underperforming Retail Center” – Chicago, IL

Donor

- 24,000 square foot retail center
- \$515,000 mortgage
- 70% vacant
- Deferred maintenance had mounted
- Remaining anchor tenant was exploring new locations
- Attempts to sell unsuccessful for over a year

Realty Gift Fund

- Accepted gift based on \$3,000,000 appraisal
- Paid \$600,000 to owner. Invested \$75,000 in improvements
- Secured anchor tenant, captured an LOI for new tenant, sold to investor
- Granted net proceeds to 18 other nonprofits

Story 3 – “Sudden Capacity” - Blakeslee, PA

Donor

- Out of state resort property owned for 30 years, 4 hours from home
- 950 square foot ski cabin in the Poconos
- Purchased for parents, but both had passed away
- Rented for 3 years but tenant moved on
- Had made \$25/year donations to favorite hospital for 32 years
- Decided to donate property instead of undertaking repairs and sale

Realty Gift Fund

- Accepted outright donation based on \$70,000 appraisal
- Committed \$13,000 to repairs. Solicited local bids and lined up contractors
- Went under contract to sell 3 days prior to work beginning
- Start to finish in 75 days

Story 4 – “Parent Moves To Assisted Living” – Westminster, CO

Donor

- Generous Goals in Need of Help
- Purchased 1980’s home for mother, who recently went to assisted living
- Debt free but old, in need of repairs to “make ready” for market
- This kind of work was difficult for the donor
- Seeking convenience and good causes. Possibly to a donor advised fund.

Realty Gift Fund

- Closed on donation 10/08/19. Anticipated appraisal of \$450,000
- Conducted due diligence investigations, completed \$4,000 of repairs in 2 weeks
- Listed for \$449,000
- Under contract on 10/09/19 to sell at 98.6% of list value. Closing in 24 days.

Story 5 – “Owner Moves Out” – Broomfield, CO

Donor

- Generous Goals in Need of Much More Help
- Purchased Live/Work Loft in 2009 as primary residence
- Surrounding development stopped dead by recession
- Construction defects plague building. Unit was worn hard by owner/children.
- Moved out in 2016 but needed help completing move out
- Seeking convenience and good causes. Possibly to a donor advised fund.

Realty Gift Fund

- Closed on donation 12/26/19. Appraised at \$540,000
- Made \$15,000 of repairs. Storm Damage required addition \$65,000 of repairs
- Covid, tightened lending requirements, high property taxes/HOA fees have depressed price. Balancing time and price. Have sale contract at \$500,000

Story 6 – “Why Do I Own This One” – Muncie, IN

Donor

- Acquired portfolio, including 78,000sf empty corporate HQ in Muncie
- Vacant for several years
- Yearly holding costs = \$150,000
- Tried to sell, tried to auction, tried to trade
- Met RGF at trade conference in Las Vegas
- Offered donation 11/20/19

Realty Gift Fund

- Signed Donation Agreement 11/26/19. Closed on outright gift 12/31/19.
- Navigating insurance claim, value of FF&E, changing lighting to LED
- Negotiating with heir of corporate founders to fund purchase by local nonprofit
- Targeting \$1,000,000 net proceeds

REALTY GIFT FUND

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