

Ever Thought About Donating Your House? ©

Jill Lerner , Boston Business Journal

With stock values going nowhere and cash donations increasingly hard to come by, Boston charities and foundations are making a bid for the one gift that has kept on giving in recent years: real estate.

Their pitch: Donate all or partial interest in that vacation home or sprawling empty nest and cut back the enormous capital-gains tax that the vastly appreciated piece of real estate might accrue -- while at the same time receiving an income-tax benefit.

More and more estate planners and wealth advisers are touting the benefits of such moves, and a number of seminars on donating real estate are scheduled in the area in the coming weeks.

"People's wealth in real estate has actually risen, so it's become a much more important part of how people see their wealth," said Siobhan O'Riordan, director of Giving New England, a Boston-based organization that supports philanthropy.

"People are talking about it. Community foundations are talking about it, (and) I'm hearing advisers talking about it," she added.

In response to that interest, Giving New England is one of the group's hosting a real estate donation seminar later this month for financial advisers -- its first on the topic. Money management firm State Street Global Advisors also will hold a session on the subject for clients at the end of April.

The Boston Foundation, one of the nation's largest community foundations, with an endowment of more than \$550 million, is actively seeking to capitalize on the buzz among prospective donors and the estate planners who advise them, and recently launched a direct mail informational campaign about donating real estate.

The foundation is made up of 750 charitable funds, which have been established by donors to benefit the community, and last year made grants of \$53.7 million to nonprofit organizations.

Over the past three years, 80 percent to 85 percent of the gifts received by the foundation have been in the form of securities, with 10 percent to 15 percent in the form of cash, and real estate gifts accounting for a portion of the balance, according to Ruben Orduña, director of development for the Boston Foundation.

But during that 3-year period, the size of stock gifts has fallen relative to the size of real estate gifts -- with the average gift of real estate in fiscal 2002 valued at \$490,700 compared with \$83,900 for the average gift of stock.

"We basically recognized that the one asset that was really holding its value is real estate," said Orduña,

who added the foundation has received \$26 million in real estate gifts since 1996, including residential property, a mall, four motels and just over 75 acres of undeveloped land from Polaroid Corp., which was used to establish a \$19 million corporate donor-advised fund. It hasn't hurt that the value of a typical home in the Boston market increased by 26 percent between 2000 and 2002, one of the highest spikes in the nation, according to data from the National Association of Realtors.

Another benefit of real estate donations, especially in the current market, is that the properties can be sold fairly quickly.

Orduña notes that some of the stock donated to foundation was restricted, meaning in many cases, the foundation couldn't unload it for 30 to 90 days. "In many instances we won. And in some instances, we didn't win," he said.

Through its direct-mail campaign and other initiatives, the foundation hopes to increase the number of those valuable real estate gifts, both residential and commercial.

Recently, the foundation developed a brochure discussing the benefits of gifting with real estate, and last week, mailed about 2,000 of the pamphlets to prospective donors.

Early next month, the foundation is hosting its own seminar on charitable giving with real estate, and officials are currently recruiting real estate professionals, attorneys and accountants for a real estate advisory committee to guide the foundation in its appraisal of real estate.

"Our hope is by raising awareness, that we'll see a good increase of this," said Orduña, who said the foundation sells the properties as soon as possible. The proceeds are then used for charitable remainder trusts or in funds that benefit other nonprofits -- many of which do not have the mechanisms in place to accept gifts of real estate themselves.

Appreciating value

As an added donor incentive, people who give real estate to charitable foundations can choose to establish donor-advised funds with proceeds from the foundation's sale of the property.

At the suggestion of his lawyer, one elderly local man donated a 50 percent interest in his six-bedroom Cambridge house to the Boston Foundation and used the proceeds given to the Boston Foundation to create separate charitable funds for each of his five children.

"It seemed to be a very ingenious suggestion, because you save the capital gains taxes on selling the entire house -- and that was a substantial gain because it appreciated so much," said the man, who asked to remain anonymous. "And, it got funds (for charitable donations) in the hands of the children without the estate tax."

But not all donations are accepted, said Orduña, and the reasons often have to do with debt-financing,

tax issues or environmental liabilities.

Debt issues tend to be less of a concern with residential properties, because most that are donated are not mortgaged.

"Most people who would be making substantial gifts aren't on their last dollar," noted Robert Woodburn, a partner at law firm Palmer & Dodge LLP who specializes in charitable contributions and estate planning.

In fact, many donors are older, wealthy individuals who are currently looking to offload some of their assets, said Jan Adams, senior vice president and manager of the charitable asset management group at SSGA.

Typically, one-third of someone's net worth is in real estate, she noted. As a result, Adams said her practice group has seen increasing interest in gifting with real estate.

Competition steepens

But the Boston Foundation will have to compete for those parcels with other community foundations, which also are stepping up their emphasis on real estate gifts.

Betsy DeWitt, executive director of the Brookline Community Fund, said her organization has never been offered a real estate gift but said officials are in the process of educating themselves about how to accept such donations.

The Greater Lowell Community Foundation has gone a step further and is in the early stages of developing literature and educational programs about real estate philanthropy, said executive director David Kronberg.

"We're very, very interested," said Kronberg. "In this dreary market, within the last couple of years, the one thing that has appreciated is real estate."