



## A New Mindset for Gifts of Real Estate

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A gift of real estate can be one of the most generous gifts that a charitable organization will ever receive. Yet, many charities decline all proposed gifts of real estate, certain that Armageddon awaits as soon as they receive the deed. The reality is that with sound gift acceptance policies and by performing some basic due diligence, charities will most likely find that the gifts of real estate that they accept will bring in significant resources to fund compelling new initiatives. This is particularly the case with residential properties offered by loyal donors.

It is prudent to have a healthy skepticism when offered a gift of real estate. However, while horror stories make engaging cocktail conversation at fundraising conferences, it is those charities that refuse to even consider a gift of real estate because of these horror stories that lose – and lose big.

### **Develop Clear Policies and Procedures for Accepting Gifts of Real Estate**

It is essential for a charity to have well-defined policies and procedures in place when offered a gift of real estate. Drafting of these policies should be a collaborative effort among development, finance, legal, executive officers, and a representative from the board. Once these policies are in place, charity staff will know exactly the procedure to follow when a donor says “Take my million dollar house, please.”

### **Stage One of the Due Diligence Process**

Consider segmenting the due diligence process into two distinct stages. The first stage involves steps that can be taken by charity staff with minimal expense. Once information has been gathered in the first stage, it should be submitted to the Gift Acceptance Committee to determine if the second – and potentially more costly – stage of due diligence should be undertaken.

Here are steps that charity staff should carry out during the first stage of due diligence:

**Property questionnaire** – Have the donor complete a comprehensive questionnaire disclosing information about the property. The questionnaire should ask about ownership, carrying expenses, current and previous uses, renovations, known defects and environmental issues, mortgages, etc. Also, ask if the property has been offered for sale within the last two years and, if so, request details.

**Property description** – Ask the donor to describe the property and to provide photos and a copy of the deed. If the property is a condominium, co-op, or part of a homeowners’ association, obtain a current set of the governing documents from the management company. Are there restrictions on which types of entities can own a unit in the community? Ask the management company if the fees for which the owner is responsible are current and if any assessments are pending or anticipated.

**Title search** – Order a title search from a title insurance company or attorney. This may cost a few hundred dollars, but the information is invaluable. The resulting report will show the owner of record, outstanding mortgages and judgments, liens, and a legal description of the property.

**Local government offices** – Contact the municipal Building and Planning Office and ask about the permitted use of the property and if any code violations exist on record. Contact the tax collector to see if the real estate taxes are current and how much they are.

**Site visit** – If a site visit is possible, visit the property. Take along a colleague. Two sets of eyes are better than one. If the property is not in a location where staff can conveniently visit, see if a volunteer to the organization can visit it. While the purpose of the site visit is primarily to view the subject property, also view the surrounding area, as this goes to the marketability of the property.

**On-line databases** – On-line databases such as trulia.com, zillow.com, and realtor.com are another tool to use when researching the property. These databases contain information about the surrounding neighborhood and other properties that are on the market or have recently sold. Information on these websites is a good starting point, but should be verified.

The total cost of the above due diligence should be approximately \$500, a minimal amount to spend for a gift that has the potential to bring in six figures or more. If after reviewing the information gathered in stage one of due diligence the Gift Acceptance Committee deems it prudent to move forward, the charity can go in one of two directions.

### **Stage Two of the Due Diligence Process**

The charity may choose to stay directly involved and move to the second stage of due diligence, which will be more costly and will require professional expertise. The charity should engage a local real estate attorney, have an inspection performed by a professional building inspector, and order an environmental report. Local real estate agents should be shown the property to get their opinion of value and marketability. (This is in addition to the qualified appraisal that the donor must obtain and should share with the charity.) Once all of this information is compiled, submit it to the Gift Acceptance Committee, which will make a recommendation to organization leadership as to whether the property should be accepted.

The charity has another route it can follow should it continue to have interest in the property as a gift, but no longer wishes to do further due diligence or be involved in accepting and disposing of the property. Many community foundations and some other public charities will accept illiquid assets as gifts and then sell those assets, with the proceeds to be used to benefit the charity suggested by the donor. Each public charity that offers this service has its own criteria for what it will accept and the terms for application of the proceeds upon sale. This is an alternative worth exploring for charities that do not wish to have direct involvement in accepting and selling a gift of real estate.

### **Conclusion**

It is undeniable that gifts of real estate have risks. But with sound policies and by following basic procedures, those risks can be identified and addressed in a way that makes real estate a viable and valuable gift for many charities. It is time for a new mindset when a donor proposes a gift of real estate. It may be an excellent way to get that new initiative that is a campaign priority funded.