

CASE STUDY

In the world of charitable gifts, real estate donations provide a way to benefit both the donor and the donee. When a party decides to make a gift of real estate to a charity, the gift can be combined with a Charitable Gift Annuity which ensures the donor a monthly income and the donee with the remainder upon the death of the donor. In the example of the successful recent case study below the Charitable Gift Annuity was also complemented with a direct donation to the donee. Both parties were very pleased with the results.

Recent case study for funding Charitable Gift Annuity with real estate.

Mr. and Mrs. Garold Faber of Torrance, CA, approached California State University Dominguez Hills (CSUDH) to explore the possibility of donating a condominium in Redondo Beach, CA to support the housing needs for new professors. While investigating their concept, it was suggested they might want to consider using a portion of their property equity to fund a Charitable Gift Annuity (CGA) which would provide them each with a monthly income and use the balance as a gift to the University.

To accommodate the CGA element of the donation it required the California State University Foundation (CSUF), a certified grantor of CGAs, to step in as the transaction's coordinator. Ms. Lori Redfearn (Vice President and Senior Director, Systemwide Advancement, for CSUF) and Mr. George Pardon (Vice President, Administration and Finance, CSUDH) worked closely to process the procedure prescribed in the CSUF "Guidelines for Gifts of Real Estate".

CSUF retained the services of a real estate consultant to handle the joint efforts of several Strategic Alliance partners with whom he had built relationships. HomeSold, Inc., a Fidelity National Financial company, provided a network Realtor to inspect the condo, order a preliminary title report, write a "Brokers Opinion of Value" memo and issue a marketing plan. Under the CSUF Guidelines, all properties offered in exchange for CGAs must be donated and sold simultaneously.

An acceptable purchase offer was procured by the Realtor. The escrow closing took only twenty-five days. Everything went as planned and sales proceeds were distributed to fund two CGAs (one each for Mr. and Mrs. Faber) and a current cash gift to CSUDH. The cash is to be used to purchase one or two condos near the campus which will house university professors in the near future.

When interviewed about the process, Mr. Faber said, "the process went very smoothly" but "it needs to be better advertised". He senses many other university supporters would use their real estate equities to fund CGAs if information were better disseminated.

The establishment of CSUF's accommodator program has allowed CSUDH to receive a donation they might not otherwise have been able to accept and it opens the door for similar gifts at the other twenty-two California State University campuses.

Comments from Ms. Redfearn, "Our foundation board was cautious about accepting gifts of real estate because we do not have a sizeable unrestricted asset pool to capitalize a Charitable Gift Annuity while marketing the real estate for sale. The process of simultaneous sale eliminated that obstacle and the risk associated with estimating sale proceeds."

In the process of simultaneous sales, the donor enters into an agreement giving the CSUF a contractual right to the donation. Under that contract CSUF has a specific due diligence period to investigate the property issues and market the asset. It is the Foundation that finds the buyer, negotiates the sales price and closes the transaction. The donor receives the gift annuity income and tax deduction component at the end of the process. They have no hands on control of the process once the "Agreement For Donation of Real Property and Escrow Instructions" has been executed.

Comments from George Pardon, CSUDH: First of all, it is important to underscore that none of this would have been possible if not for the generosity of Mr. and Mrs. Faber which is greatly appreciated. This type of gift is an excellent opportunity for friends of the University to be active participants in the distribution of their estate experiencing the gratification of seeing their dreams realized while at the same time receiving the financial benefit they needed from the donated asset. Given its complexity, the process went incredibly smoothly thanks to the talented professionals that guided this transaction to completion. This is a terrific gift for California State University, Dominguez Hills and we intend to publicize it as an encouragement to others to participate in similar transactions.

Sidebar example: the values are for demonstration purposes and not actual case numbers.

Fair Market value of property:	\$500,000
Costs for sale: 7%	\$35,000
Net sales proceeds:	\$465,000

Donors fund Charitable Gift Annuity for \$375,000 at annuity rate of 6.25% or \$23,437.50 annually with monthly payments of \$1,953.13. Annuity rates are based on the American Council of Gift Annuities.

The balance of the donated property equity of \$90,000 could be a straight current gift to the donee.