



GIFTING FOR GOOD

As the popularity of gifting real estate to charities increases, so too do opportunities for appraisers

By **CHERYL WINOKUR MUNK**

There was nothing routine about a recent assignment Eric Garfield, MAI, accepted to appraise a multimillion-dollar home. To start with, it was an international assignment and the property was in the middle of a city where machine-gun-toting guards wearing bullet-proof vests routinely roamed the streets and nearby beaches. The area was so dicey that Garfield, the managing director of real estate in the Los Angeles office of WTAS, says his wife nixed the idea of him going in person, so he sent a subcontractor as his proxy.

Also making the assignment unusual were the circumstances behind the appraisal: The owners hired Garfield because they were donating the home to a U.S. charity abroad.

Garfield says the assignment is one of an increasing number of examples (admittedly, riskier than most) where donors use real estate to further their charitable giving, and this growing niche is ripe with opportunity for appraisers.

“If you can supplement these [assignments] with your financing work or litigation support work or estate planning or any other kind of appraisal work, it’s a good area to be

in,” Garfield says. “It’s one more arrow in your quiver that will pay very well.”

To be sure, the real estate donation market is still relatively small and some appraisers say it would be hard to make a living on charitable donation appraisal work alone. In fact, most charities today are not set up to handle donations other than cash. In 2012, donors gave charities \$316.23 billion in total gifts, according to the Giving USA Foundation and the Indiana University Lilly Family School of Philanthropy. Of that amount, less than 3 percent came in the form of real estate equities, says Chase Magnuson, president of Real Estate for Charities, a consultancy in Arlington, Va., that helps corporations, charities and individuals with real estate donations.

Magnuson sees charitable real estate donations gaining momentum, and in what may be indicative of a trend, he says he knows of

several 501(c)(3) charities — including George Washington University, for which he does work — that have added staff with real estate backgrounds to handle the growing number of real estate gifts.

Appraisers who do this type of work say they enjoy the opportunity to interact with lawyers, accountants and other professionals. Forging these relationships also opens up doors to other appraisal jobs related to estates and family gifting, for example. Appraisers also like the fact that fees for charitable real estate gift appraisals can often run 25 percent to 50 percent higher than typical bank appraisals.

What You Know, Who You Know

There are, of course, challenges to being in this line of work. For starters, the IRS is very particular and appraisers have to be careful that they precisely follow the IRS rules pertaining to qualified appraisals or risk significant monetary and other penalties. When it comes to the IRS, even minute details count. Indeed, the agency has increasingly been clamping down on the review of charitable donations to make sure they are reasonable.

“An appraiser could really stumble and make a mess,” Garfield cautions.

In the world of charitable real estate giving, for example, appraisers have to use

fair market value as opposed to market value, otherwise the IRS can throw out the appraisal, explains Garfield, who learned this lesson the hard way when one of his appraisals was nearly disqualified.

Aside from learning the IRS definitions and rules, Robert E. Dietrich, MAI, suggests appraisers who are interested in this type of work take the Appraisal Institute course Valuation of Conservation Easements (www.myappraisalinstitute.org/education). In addition, Dietrich says appraisers should review Tax Court cases involving donations because in some cases, donations were denied because appraisers did not follow proper methods or did not use correct terminology.

"The court cases are actually good learning tools," says Dietrich, senior valuation services director at Colliers International Valuation and Advisory Services in Newport Beach, Calif. "Also, the lessons learned will help you speak more knowledgeably with your clients."

The other thing about this type of work is that you have to possess a certain type of personality to generate business. Appraisers who do significant charitable real estate

donation work say it helps to be outgoing and willing to mingle — especially with attorneys, CPAs and wealth advisors. Being involved in business organizations, writing articles and serving on the boards of charities helps, too. "You need to be known," says Garfield. "If you just have a Yellow Pages ad for Joe the Appraiser, I'd be willing to bet that you'd never get a phone call for this purpose."

Michael Hobbs, SRA, president of PahRoo Appraisal & Consultancy in Chicago, agrees that appraisers have to work hard to cultivate referrals, and he says appraisals for charitable real estate giving is not a business line that blossoms immediately. "It grows at the speed of relationship building," he says.



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Hobbs does a lot of community outreach and public speaking to try to get his name out there as someone who is familiar with the charitable real estate donation space. He's also seeking his MAI designation to open up more professional opportunities.

A Unique Challenge

Another challenge for appraisers who do charitable real estate donation work is that the types of assets that are gifted often make valuation

OPPORTUNITY KNOCKS



Chase V. Magnuson

There are numerous ways that appraisers who are interested in performing real estate donation appraisals can participate.

Chase V. Magnuson, president of Real Estate for Charities, a consultancy in Arlington, Va., that helps corporations, charities and individuals with real estate donations, says the most common types of gift structures include an outright gift of debt-free property.

In order for a donor to be able to create a charitable deduction for federal and state income tax purposes with that kind of gift, the donor has to pay for a qualified appraisal — one that meets specific IRS regulations. Often, to protect itself, the charity will do its own appraisal, using a different appraiser. Later on, when the donated property is sold, there's the need for yet another appraisal.

"It's a job for several different people all on the same property," says Magnuson.

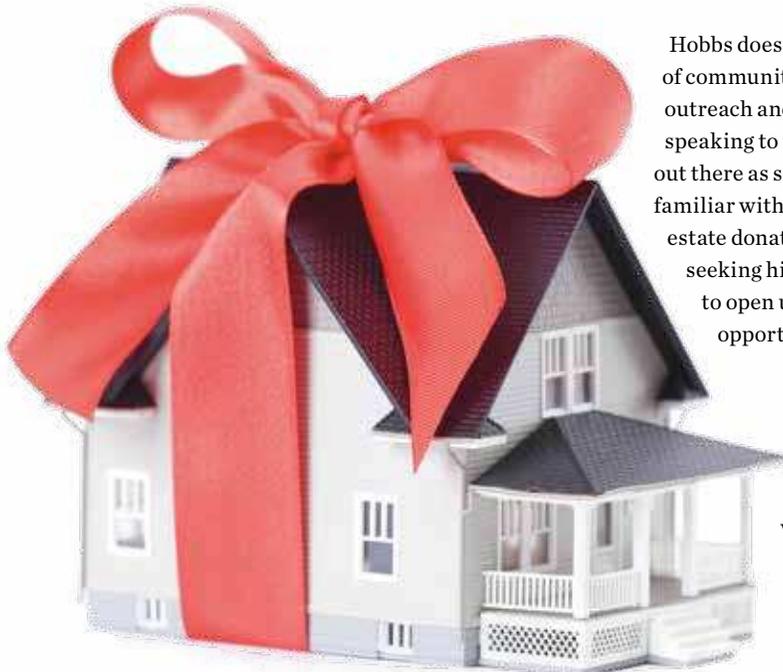
Appraisals also are necessary for bargain sales, which are popular methods for gifting real estate and involve the donors receiving cash or mortgage relief in exchange for their property. An appraiser also could work with trust companies or work directly with charities on charitable remainder trusts.

Magnuson says that getting a foot in the door could mean a whole new book of business for appraisers since there may be other trust beneficiaries who have ongoing appraisal needs outside the realm of charitable giving.

However, he cautions that not everyone is qualified to do this type of work, but for those who are, there is the potential to earn a sizable amount of fee income. "It's wonderful business for years to come for anyone who catches this vision," Magnuson says.

more difficult. The more unique an asset, the less likely it is that there's an active universe of comparable data. Hobbs worked with a client a while back who owned a cemetery and was planning to gift the property to a charitable religious entity that was going to own and manage it. There were no nearby cemetery sales within a reasonable period of time, so Hobbs had to broaden his search. This assignment wasn't a show-stopper, but situations like this make a job more time-consuming — one reason why the fees tend to be higher than they are for many other types of assignments.

Even though appraisals for charitable donations can be more difficult, Stephen A. Rockkind, SRA, likes that they often open up



opportunities to work with smart, successful and interesting clients. Rochkind, president of Area Appraisal Services in Bethesda, Md., often comes away with a fascinating story following these types of assignments. He recently completed an appraisal for the estate of a man who ended his life three weeks after his wife's sudden death. The estate plan willed his residence to George Washington University. He also worked on another appraisal that involved millions of dollars of real estate being donated to the same university by a 97-year-old chief executive of a shipping company.

These smart, successful and interesting clients can, however, be some of the most demanding, especially those who come in with some preconceived notion of a



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property's worth. Rochkind's rule is that he won't work with a client if he thinks the relationship will cause him to lose sleep.

Hobbs has a similar threshold, turning away business when prospective clients expect him to rubber-stamp their valuations. “We don't do that type of work,” he says.

In addition to pressuring an appraiser to hit a predetermined number, some clients might try to get them to use a previous appraisal on a

property to save money. Appraisers might feel obligated to sign the form if they had completed the earlier appraisal, but it's a bad idea, says Russell K. Sterling, MAI.

Sterling, a managing member of Sterling DiSanto & Associates,

in Somerville, N.J., once had a situation in which a property owner who had a conservation easement placed on his property was donating the market value of the development rights. He was attempting to use an outdated appraisal of the property that Sterling previously had done for a local township. Sterling says he got a letter in the mail, with a pre-filled-in IRS form 8283 and a sticky note that said, “Please sign here.” He refused to sign off, but agreed to do a new appraisal on behalf of the property owner.

He has since done several other charitable real estate donation appraisals and believes it's a good way to supplement the other types of appraisal work he does.

Indeed, for many appraisers, charitable real estate donation appraisal work could be worth further investigation. While it's not for everyone, there are many benefits for those who have the willingness and the necessary expertise. Certainly, the possibility of additional fee income could be welcomed by many appraisers interested in expanding their practice beyond traditional bank work. 

Cheryl Winokur Munk is a West Orange, N.J.-based freelance writer and editor whose coverage focuses on the financial services industry.

Donation Information

For more information...

- If you think charitable real estate donation work could be up your alley, check out IRS publication 561, www.irs.gov/publications/p561/ar02.html#d0e1848, which spells out the agency's requirements for determining the value of donated property.
- Check out Treas. Reg. §1.170A-13(c)(3), which sets out the detailed requirements for an appraisal document to be treated as a “qualified appraisal.”
- Familiarize yourself with IRS Publication 526 on Charitable Contributions, which contains a section on property contributions: www.irs.gov/pub/irs-pdf/p526.pdf.
- Instructions for IRS Form 8283 on noncash charitable contributions also could provide good background information: www.irs.gov/pub/irs-pdf/i8283.pdf.
- Visit the Appraisal Institute's website for information on continuing education courses pertaining to charitable real estate donations. Two programs to consider are the Valuation of Conservation Easements and IRS Valuation: www.myappraisalinstitute.org/education.
- Find someone with a good reputation who already has experience in this area and have that appraiser serve as your mentor.