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Donor funds accept more real estate

By Kathie O'Donnell

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BOSTON - With the U.S. housing market clearly cooling, some donor-advised funds are seeing a significant increase in gifts of appreciated real estate.

The Schwab Fund for Charitable Giving is on track to take in more than $28 million in real estate this year, up from $14 million in 2005, said Kim Wright-Violich, president of the $1 billion fund, which is offered by The Charles Schwab Corp. of San Francisco.

Meanwhile, the Vanguard Charitable Endowment Program, offered by The Vanguard Group Inc. of Malvern, Pa., also is seeing a "significant increase" in inquiries involving gifts of donated real estate this year, said James Barnes, the program's director of client relations.

While donor-advised funds have long accepted cash and marketable securities, they have traditionally been less enthusiastic about real estate, because real estate often comes with problems related to liability or environmental concerns.

Also, most gift funds have avoided being property owners for any length of time.

"But as [gift funds] watched from the '90s into the 2000s the real estate boom, and they saw the stock market after 2000 go down and then flatten out, they looked to real estate," said David Leibell, a principal at Stamford, Conn.-based law firm Cummings & Lockwood LLC.

Indeed, the increase in real estate donations to the Schwab charitable-giving fund is no accident.

In late 2003, the firm recognized real estate's potential in the charitable realm and the next year launched a campaign to educate financial advisers about the benefits of donating real estate.

"It just made sense that real estate would be a good asset to consider if indeed the market began to cool off," Ms. Wright-Violich said.

She agreed that liability had been a concern for donor-advised funds.

That is where Atlanta-based Charitable Solutions LLC comes in.

Essentially, the three-year-old company uses its own donor-advised fund, which it calls Dechomai Foundation Inc., to act as a holding tank for assets that are less liquid, such as real estate.

Let's say a would-be donor wants to donate land to Vanguard's donor-advised fund. The firm would refer that donor to Charitable Solutions, which, in turn, would determine whether the land were worth accepting.

If that were the case, Dechomai would accept the land as well as any risks associated with owning it. Once the land was sold, the cash from the proceeds would be granted to Vanguard's donor-advised fund.

For its part, Charitable Solutions charges donors typically about 1.7% on the net proceeds from the sale of the asset.

Boston-based Fidelity Investments, Schwab and Vanguard all refer donors to Charitable Solutions, according to the latter's president, Bryan Clontz.

"[Charitable Solutions is] the one we use most," Ms. Wright-Violich said.

Predictably, rising property values is behind donors' interest in giving away real estate, he said.

"For more and more people, I think they are interested in getting out - I don't want to say at the top, because who knows? - of the real estate market," Mr. Clontz said. "They've held assets for a long period of time, and now they want to find ways to either give the entire asset or - what most people don't realize is that you can give a partial interest in the asset."

When he started Charitable Solutions, Vanguard's and Schwab's donor-advised funds "did zero" with real estate, Mr. Clontz said.

"Fidelity did a little bit," he added. "It had to be really big and really clean."

Indeed, Fidelity's Charitable Gift Fund hasn't accepted any donations in the form of real estate over the past year, though it has accepted real estate donations in the past.

Fidelity Charitable Gift Fund, whose $6 billion in grants since its 1991 founding make it the nation's No. 1 grant maker among donor-advised funds, is working to prompt more frequent discussions of charitable giving with their clients, said David Giunta, the gift fund's president.

Affluent clients typically have a range of assets, including real estate, and advisers should consider them all when looking for ways to achieve the clients' philanthropic goals while "seeing what would make the most sense from a tax standpoint," he said.

In 2003, Mr. Clontz's firm handled about $2 million in business involving real estate or other non-cash and non-marketable-securities assets for the Fidelity, Schwab and Vanguard funds.

That increased to about $4 million in 2004 and soared to $23 million last year. This year, his firm is on pace to do $30 million to $40 million of business referred to it from those three donor-advised funds.

In addition to real estate, Charitable Solutions has helped donor-advised funds convert to cash a seat on the New York Mercantile Exchange, a condominium in Paris and a partial interest in a professional sports team.

Although real estate represents a relatively small portion of non-cash assets given to charity, its potential to help others is huge, experts say.

"I do think this will help philanthropy," said Vanguard's Mr. Barnes. "There's a lot of wealth locked up in real estate that could be helping feed people."