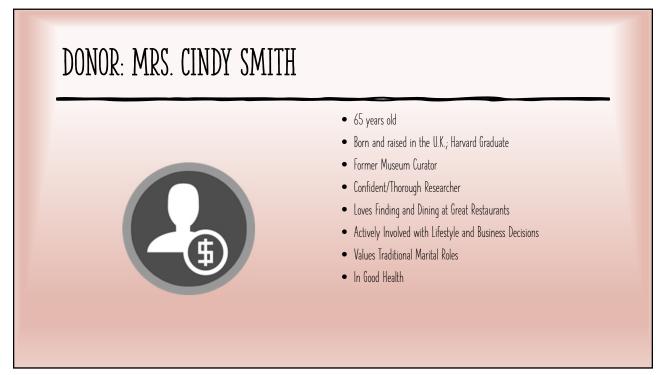
CLOSING A REAL ESTATE-FUNDED LIFE INCOME GIFT: EASIER SAID THAN DONE!

Bill Strickland, JD, CSPG, CEPA 2022 Practical Planned Giving Conference September 20, 2022



DONOR: MR. HENRY SMITH

- 81 years old
- Compromised Health, but presents otherwise
- Former Film & Television Director and Producer
- 2nd Marriage, Never Discusses Children from 1st marriage
- Has bought, managed and sold many properties; confident in his knowledge regarding with real estate matters
- Currently owns rental property, Maintains Office in his Primary Rental Property and Conducts Repairs
- Extremely Loyal to his Tenants and "True" Friends
- Would prefer to live on the CA Central Coast or the surrounding hills.
- Demands Respect and Values Acknowledgment of his Success despite his hard scrabbled upbringing



MR. & MRS. SMITH'S ASSETS AND PHILANTHROPY

Assets

- Primary Residence
- Stock Portfolio
- Partial Interest in a Central Valley Ranch
- Several Rental Properties (2 with outstanding mortgages)
- Art Collection

Philanthropy

- Modest Annual Giving
- In addition to providing for friends, they designated 15 charities as beneficiaries of their trust estate
- Respectful stewardship is critically important for the relationship

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MR. AND MRS. SMITH'S GOALS

- Stated Goals
 - Fixed stream of income on monthly basis, which was independent of market performance and would serve to keep Mrs. Smith in the lifestyle to which she was accustomed after Mr. Smith's death.
 - Relieve Mr. Smith of management responsibilities, thus enabling the Smiths to spend more time together, whether at home or traveling.
 - Generate a significant income tax charitable deduction
- Unstated Goals
 - . Need to Demonstrate One's Worth and Value

ISSUE SPOTTING DISCUSSION (1)

- What issues, if any, do you find relevant in Mr. Smith's profile?
- What issues, if any, do you find relevant in Mrs. Smith's profile?
- What issues, if any, do you find relevant to the Smiths' Assets or Goals?

STEWARDSHIP & CULTIVATION PHASES

Interested Parties

- Mr. and Mrs. Smith
- Donor Relations Manager
- Gift Planning Officer
- Other Charities

Pertinent Issues

- Demonstrate Appreciation for Annual Support and Legacy Society membership
- Estate Planning Successor Trustee Consideration
 - Individuals
 - Professional Fiduciaries
 - Corporate Trustees
- Determination of Meaningful Cultivation/Stewardship Activities
 Provide opportunity for Mr. Smith to invite friends
- Philanthropic Decision/Charitable Intent

GIFTS OF REAL ESTATE - CONSIDERATIONS (DONORS' PERSPECTIVE)

- Donors create Life-Income Gifts with Real Estate for both personal and financial reasons:
 - Personal
 - No longer wishes to manage the property
 - A great buyer has expressed interest in the property
 - Personal reasons requires a move
 - Financial
 - Avoid capital gains tax liability
 - Generate a charitable income tax deduction
 - Create a stream of income
 - Don't anticipate that the property will appreciate (slump in housing prices)

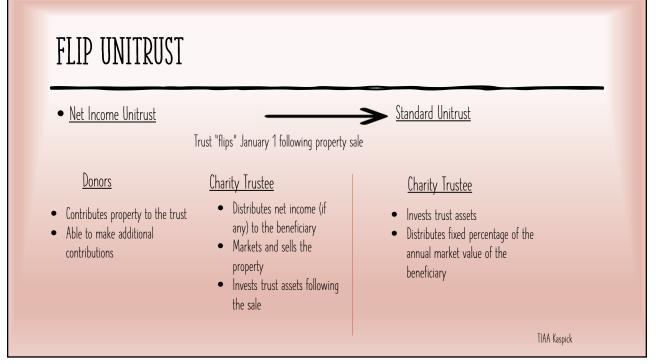
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GIFTS OF REAL ESTATE CONSIDERATIONS (CHARITY'S PERSPECTIVE)

- Value/Importance of RE Gifts
- Potential Risks (Accepting the asset; Managing the asset; Disposing of the Asset)
- Donative Intent is Optimal
- Effective Due Diligence (Discovery and Qualification)
 - Importance of Gift Acceptance Policy (Should help screen out bad prospects, maintain good donor/charity experiences)
 - Condition of title of and property, environmental liability, lack of liquidity, lack of marketability, reputational risks,
 - Unique Issues related to Residential Rental Property
 - How is property currently managed
 - Tenancy/Vacancy
 - Amounts of gross rents, expenses, net rents
 - Cash flow after gift

GIFT VEHICLES

- CRUTs, CRATs and CGAs are Life Income Gift Vehicles that ideal for use by those wishing to dispose of highly appreciated, low yielding property free of capital gains, such as real estate, that will produce higher amounts of cash flow and appreciation. A double tax leverage can be accomplished by avoiding recognition of capital gain and creating an immediate income tax deduction.
- Selecting which of the available gift vehicles is best for any particular donor depends upon the donor's goals and the features and benefits of the respective charitable vehicle.
- For life income gifts of real estate, the Flip Unitrust is the most used gift type.



CHARITABLE REMAINDER ANNUITY TRUST - CRAT • CRAT Considerations *Potential Risk Donors Charity Trustee "Unmarketable Asset" Distributes annuity amount stated as a fixed • Contributes property to could cause the trustee percentage of the initial FMV (a fixed sum) the trust to be unable to fulfill the beneficiary Unable to make additional the trust's payout • Markets and sells the property contributions requirements. Invests trust assets following the sale • TIAA Kaspick

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CHARITABLE GIFT ANNUITY - CGA CGA Considerations *Potential Risks Charity Donors • Distributes fixed annual amount Contributes property to the charity in • Charity must earmark funds for annuity exchange for charity's immediate promise through annuity contract payments and state gift annuity to pay quaranteed lifetime income. • amount stated as a fixed percentage of reserves. • Simpler gift the initial FMV (a fixed sum) the • Charity must obtain donor's agreement Timing of distributions is not dependent beneficiary to discounting the annuity rate to reflect • upon sale of property • Markets and sells the property the market risk and selling costs. Not depended upon investment • Invests trust assets following the sale Accurate Valuation performance of donated assets. Market Assessment • In CA, CGAs are regulated by the Fixed Income • • • Simpler Gift to Establish Insurance Commissioner

NEGOTIATION PHASE

Interested Parties

- Mr. and Mrs. Smith
- Donor Relations Manager
- Other Charities
- Real Estate Manager

Pertinent Issues

- CRAT vs. CRUT vs. CGA
 - CRAT Decision
 - Selecting Other Charities
 - CGA Decision
 - Payout Amount
- Managing Relationships Internally and Externally!

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ISSUE SPOTTING DISCUSSION (2)

- What additional issues, if any, do you find relevant related to the gift negotiation process?
- What different steps might I have taken to not lose the gift opportunity?
- How would you have addressed the concerns of the donor, the Real Estate Manager and the CA State Director?
- If you've had the experience of managing interactions between donors and internal staff, what steps did you take to resolve the matter effectively while still maintaining good relationships with all parties?

GIFT PROCESSING PHASE

–Bank Officers –CPA

Review Firm –Title Officer

-Escrow Officer

-Environmental Database

Interested Parties

- Mr. and Mrs. Smith
- Organization's Real Estate Manager
- Organization's CA State Director
- Organization's National Senior Leadership
- Property Management Company
- Appraiser
- Real Estate Brokers

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POST-GIFT CLOSING PHASE

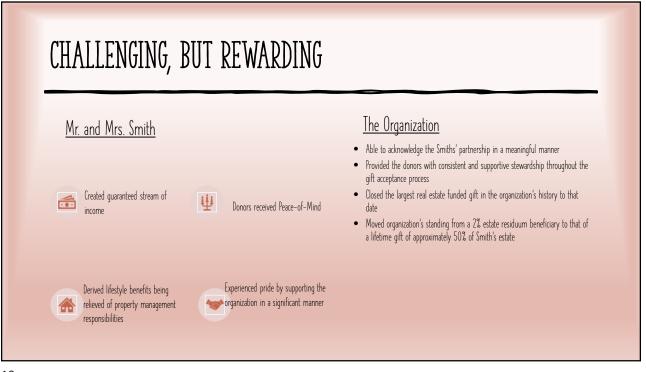
Interested Parties

- Mr. and Mrs. Smith
- Organization's Marketing & Communications Team
- Organization's Real Estate Disposition Manager
- Mr. Smith's Close Friend Potential Buyer
- Organization's President & CEO
- Organization's CA State Director

Pertinent Issues

onors' relationships with Tenants

- Donor's Insistence that Organization Sell to His Friend
- Dissatisfaction with MarCom's Interview Process
 - Article Language
 - Proposed Photo
- Subsequent Solicitation for Outright Gift



PRACTICAL PLANNED GIVING CONFERENCE SPEAKER EVALUATION

Excellent 5	Good			
5	Good	Norteol		
-		Neutral	Fair	Poor
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e most about	the session?			
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