



Buying ownership entity along with property has downside

Some real estate investors have stopped buying real estate. But they haven't stopped buying the companies that own the real estate. A new method of acquiring real estate is beginning to take hold.

Many real estate investments are held in partnerships, LLCs or corporations for which the ownership of that property is the entities' only business.

So it can often be simpler to buy the LLC rather than the actual real estate.

Buy the company that owns the real estate, and you now own the company and its real estate.

Why do such a thing?

Without a change in ownership entity, real estate financing is unaffected, preventing the triggering of refinancing penalties, the loss of a favorable interest rate or loan terms. The original loan is undisturbed when you simply take over as the owner of the ownership entities.

And without a transfer of deed, a higher price is not noted by taxing authorities, possibly avoiding or delaying a property tax increase.

Sounds great. Why isn't everybody doing it?

There are downsides. The buyer of an owning entity assumes all of the acquired company's liabilities. That is a major dif-

ference from a straight property purchase in which the buyer is protected by title insurance and is only assuming certain liabilities.

Now you've turned a real estate transaction into a corporate acquisition. Any unresolved legal conflicts with present and former employees, such as a sexual harassment charge, or issues involving previous business ventures of the entity may well become the new owner's problem at closing. You could be buying a string of liabilities you are unprepared for.

Without an actual real estate purchase and sale, a 1031 tax-deferred exchange is also not an option.

But sometimes, this method is the only way that might make sense to both buyer and seller, although you must proceed with caution. Many real estate experts are not as experienced in buying or selling corporate entities.

If you think this might be an option for your next real estate transaction, be sure to get competent legal, accounting and real estate advice.

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BUYING REAL ESTATE

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