SOLVING THE REAL ESTATE EQUATION IN A FAMILY PORTFOLIO

With uncertainty surrounding the Commercial Real Estate market (due to the Covid pandemic, shifting economic policies, market volatility and tax considerations, etc.), succession planning when it comes to real estate assets requires extra attention. While there are myriad factors that come into play during the succession planning process, real estate presents a unique set of challenges – and opportunities – that deserve a thoughtful, strategic and creative approach.

Some of the more important considerations for real estate succession planning include the obvious, and not so obvious, approaches and solutions that will affect the ability of your family to retain and grow their wealth from real estate holdings.

Analyze Family Conditions - Make an honest and personal assessment of your family's condition and each family members' individual stations in life. Understanding the personal relationships and various levels of trust family members have for one another will help you to better establish financial goals for today and in the future, and what courses of action will be needed to help meet your goals. This is a complex and highly personal first step, but it is critical in crystalizing a plan that will work.

Have Frank Discussions - Truly understand why real estate does, does not or could occupy a place in your estate portfolio. Speak openly with your estate attorney and/or wealth management advisor regarding the goals, obstacles and sticking points that exist after a death, divorce, or other personal family matters.

Delaying or short-cutting this evaluation may create significant obstacles and cause undue expense, family conflict and hassles that may be difficult to unwind. Perform an Analytics Report - Taking due time to evaluate both the direction and stability of the historical market for your real estate product type and a realistic market forecast could afford you a clear lens to view your succession planning decisions. It will also help you to evaluate potential risk and reward and hidden opportunities as they relate to your personal wealth management and business's short, medium and long-range facility needs. This type of analysis can best be handled for you by an unbiased real estate wealth manager with the tools and experience necessary in evaluating overall market conditions, property (estate) values, competitive loan terms, and your property's deferred maintenance and capital needs.

Assess Business Needs versus Personal Wealth Management - The delicate balancing of your real estate holdings with the needs of your business facility plans and those of your overall estate planning sometimes involve opposing objectives. Over time, risk tolerance and income needs are only infrequently evaluated as part of personal wealth management and business plans. If a real estate holding exceeds your level of risk tolerance or isn't fulfilling its original objectives, might it be time to sell, buy more, or otherwise adjust your strategy?

Reducing your partnership share while leveraging property equity and diversifying your portfolio by rebalancing are ways to adjust to new conditions and needs. Try to strike a balance between what percentage of your business's and family's wealth portfolio should be dedicated to real estate and prioritize based on the risk and reward and the way your assets fulfil your objectives.

Property Infrastructure - Now is the time to take an honest and comprehensive look at your property's infrastructure to assess current expenses as they relate to the timing and risk of potentially more severe future repairs and replacements and how those could affect your estate and family. You might benefit from economies of scale by sharing new CapEx with others or by amortizing them across your portfolio.

The HVAC, building automation, roof, parking lot, electrical and structural systems will include most of the consequential capital elements of the property. Work with an experienced real estate professional and their team to determine the remaining useful life of these critical components and the financial risks, including property devaluation associated with delay, and benefits of improvements, in whole or in part. The longer you delay this assessment, the greater the potential for unexpected budget surprises.

More important, these same decisions may significantly increase your return on investment or lack thereof when it comes to operations, sale or refinancing.

Look for Opportunities to Add Value - You may be able to identify opportunities to add value to your property by taking a 360-degree view of your property. For example, unused storage or yard space on an industrial property could be converted into a build-to-suit or land sale opportunity. Adding square footage by maximizing zoning entitlements may create a new source of income and value.

Simply up-zoning to a more valuable product type might be rewarding. Structural additions to your floor plates may yield additional leasable footage. Doing so will increase your sale price when it's time for disposition. It might also afford you partnering possibilities you previously didn't have. Time spent on this now could reduce risk and yield more appeal and value to your family's real estate holdings in the future.

During challenging times in the real estate market, now is the time for you to arm yourself with knowledge and a strategy to effectively improve your properties and keep them stabilized, making them as profitable as possible, all the while abiding by your wealth management and succession planning goals.

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