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Succession planning for your family real estate holdings - How to make it a success

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Many owners of family real estate holdings keep postponing the need for succession planning. You can spend time planning for succession during your active business lifetime, or postpone planning and wait until more chaotic, uncertain, and expensive succession planning occurs. Succession planning of family owned real estate begins at the time when those who are thought to take over the management of the real estate decide that this is the occupation for the them.

The current family manager of the real estate holdings must identify the successors. Deciding which child or relative will sit in the corner office is often so emotional that it can stop succession planning before it starts. It is the necessary first step. One has to take an honest assessment of their children. Take a good look at a child or other relatives that expresses interest in taking over the family real estate holdings. The wrong decision could be costly for all the direct beneficiaries and for the generations to come. The owner should set up a formal system of hurdles to make sure the child gets the skills required of any other prospective manager. A very good idea is to send your children to work somewhere else for some time until they get a raise or promotion. It's also preparing that successor, after they have worked somewhere else, starting at an apprenticeship level, to learn from the bottom up what it takes to manage real estate holdings. It gives them self-respect and brings fresh blood and ideas into the family business. It takes the notion of entitlement away from the equation. Once at the business, make sure the child gets regular jobs at managing the properties. It should not be a foregone conclusion that they automatically have a place as in upper management. A culture that the family way is to earn their way to the top will serve future generations as well. There isn't much value in starting a child at the top; there isn't much value if you are just gifting something.

When the decision has finally been made who will get the company's reins, it can also avoid sibling power struggles by not passing shares, especially voting ones, to children and other heirs who will not be directly involved in the business. Instead, if possible, they should receive houses, retirement accounts or life insurance. It is also important for the current owner to realize , whatever the plans, there may be difficult and uncomfortable issues related to potential divorces and other matters that must be accounted for, if not predicted, in a succession plan. While many things can be guaranteed in a succession plan, happiness amongst all family members is not one of them.

Often there is no family member who is interested in, and capable of, taking over the management of the real estate. Frequently, if there is a family member to take over the reins, tensions can drive out important non-family employees who feel overlooked. To ensure that a new leader does not lose top key employees, it can often be smart to offer them a piece of the pie. Retaining key employees and developing the next generation of key employees is very significant in the future generation succession. The general cannot be successful without top lieutenants. Developing a system where key employees may be able to buy minority non-voting shares, may create a good platform for long-term succession.

Many business owners see a succession plan, or transferring ownership in properties, as giving up control and reducing income. It is very possible to create a succession plan that transfers property ownership to the eventual successors without losing control or income. The earlier a property owner begins transferring ownership to a successor, the likelier it is for a succession plan to be a success, both emotionally and financially. Property owners who postpone in creating a succession plan, never consider the potential long-term tax advantages of passing on a portion of ownership over an extended period of time.

Planning can make effective use of the current federal gift and estate tax exclusions and exemptions by transferring ownerships in real property to successors over an extended period of time, while maintaining control and preserving income to the owner. This can result in substantial tax savings.

Many feel that the simple solution to succession is to just sell the real estate. Finding a willing buyer for any property is rarely just a matter of hanging up a "for sale" sign. What the property owner wants is fair value paid by the buyer, as if that was a constant or objective number. There are many factors other than rent roll and operating costs that lead to fair market value. The truth is that valuing a property is difficult and cannot be done just once, whether it's the intent to sell the property or pass it on family members. The property owner should periodically get an independent valuation of the property, with documentation of the property valuation data and the methodology for the property valuation.

The earlier a property owner begins transferring ownership to a successor, the more likely it is for the succession plan to be a success, both emotionally and financially. Property owners who wait too long to plan, lose the potential tax advantages of passing on a portion of ownership in the early stages of a long apprenticeship. Although no one can be certain what the future will be, creating and implementing an effective property succession plan will result in financial benefits, tax advantages, and emotional satisfaction regardless of what the future brings.

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