5 Simple Elements for Your Real Estate Portfolio Legacy

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Reviewing your portfolio of investment properties should provide a sense of satisfaction. Thanks to your decades of hard work, your portfolio generates cash and operates like a well-oiled machine. But would this continue without you? Is your spouse or successor up to speed on how your portfolio operates? Do they know the addresses for each property you own? Will they be surprised when something you consider routine occurs at one of your properties?

You know it is inevitable, so don't miss an opportunity to create a seamless transition. One that allows the people you care about to avoid the stress that comes with sorting out your portfolio and figuring out how it works. Even if you have a property manager, their focus is often limited to the on-the-ground property operation and not high-level concerns like strategy, finance, or long term capital expenditures. All this tacit knowledge that helped you build your portfolio is a treasure. Help your successors by creating a map to that knowledge.

The usual estate plan with a will and trust is missing key information during a critical transition. A roadmap to understand how your portfolio operates would help fill so many of those often-overlooked gaps. Below are five essential elements to consider adding to your estate plan:

1. **Schedule of Real Estate Owned.** Create and maintain a schedule of real estate that provides detail for each property you own. The schedule should show each property's address, property type, property manager contact, number of units, number of occupied units, gross and net expected income, lender, outstanding loan balance, and whether you have impounds/escrow payments for taxes and insurance. Knowing your portfolio is half the battle for your successors to handle ongoing management. You can find templates online or use the simple template on my website.

2. **List of Trusted Advisors.** Maintain a list all the contacts that support your portfolio. Your list should include your property manager, attorney, insurance agent, loan advisor, maintenance team, and tax advisor. Include each contact's name, phone number, and email address. Even if you handle some of these areas yourself, you should not expect your heirs to have similar expertise unless they're already assisting with managing your portfolio. Help your successors get their arms around managing your portfolio by listing experts that you would trust in helping them manage your portfolio if you were not available.

3. **Instructions with List of Key Documents.** Maintain a letter of instruction to your successors that (i) explains how you manage your portfolio and (ii) provides access to

key documents. Your letter of instruction should explain your routines so that your successor can maintain the portfolio cash flow. Include the schedule of real estate (see #1) and consider providing additional key documents for each property such as deeds, loan documents, insurance coverage, bank statements, rent rolls, and accounting records. Your successor will need this information to manage the property and settle your estate. After you organize your information, consider storing it with your attorney or trusted estate advisor so they can quickly share it with your successor when needed.

4. **Staggered Loan Maturities.** Try to avoid having your property loans mature within 6-months of each other and maintain at least 3-years of remaining loan term on each property. Better yet, consider financing your properties with full term loans instead of ones that require a bullet or balloon payment at any point. This way your properties will naturally amortize the loan balance until it is paid-off. Even if the fixed rate period is only 5- to 10-years, the additional term provides you flexibility when there's another downturn and lenders step out of the market. Furthermore, your successors won't have to deal with a maturing loan that requires a significant payment in the midst of the transition.

5. **Pre-Negotiated Succession Language.** By default, most loans provide the lender the right to demand full repayment upon the death of the borrower or a guarantor. This can cause your whole portfolio to come due and put quite a burden on even strong balance sheets. You can avoid this by asking your lender to alter the due-on-death clause to allow for your successors to take over the loan. Consider that Federal law allows relatives inheriting 1-4 unit mortgaged homes to take over their loan. Your goal with your commercial loan is to get to a similar place so that your heirs won't have to come up with cash to payoff a lender in the midst of settling your estate. Remind the lender that their primary repayment source comes from the property's stream of recurring rental cash flow, which remains unaffected by the transition. If the loan is recourse, the lender may ask you to commit to providing a replacement guarantor with acceptable wherewithal. This is still better than your successors having to pay off the loan before they're ready. Lastly, approaching the lender with this request demonstrates a level of planning beyond the average borrower. It should give them increased comfort that you have a succession plan that considers how you intend to repay your loans.

These five simple elements will help minimize the stress of taking over your portfolio. You probably already know you need to do these things. I hope this article spurs a conversation with your trusted estate advisor about integrating these elements in your estate plan. The ones you love will be grateful you did.

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