

MANSION

THE MARKET

Psst.
Wanna Buy
A House?

To keep identities secret, more buyers cloak their home purchases in LLCs and trusts

BY ALYSSA ABKOWITZ

IT'S A DISAPPEARING ACT commonly pulled by the ultrarich. One day they're house-hunting and then—*voilà!*—they're gone without a trace. To keep their real-estate transactions as private as possible, starlets, tycoons, sports stars and other high-end home buyers are increasingly forming limited-liability companies (LLCs) and trusts. They bury multi-million-dollar real-estate deals under legal entities that, when set up properly, are virtually untraceable. And, according to an analysis for The Wall Street Journal by real-estate company Zillow, the more expensive the house, the greater the likelihood that a LLC or trust will hold the deed. Over the past year, 27% of U.S. homes that sold for more than \$5 million were bought by LLCs or trusts rather than by individuals, Zillow data show. Just five years ago, only 7% of homes over \$5 million were bought under an LLC or trust. In the \$2 million to \$3 million range, 17% of buyers create the legal entities. By comparison, only 2% of homes between \$200,000 and \$400,000 were purchased under an LLC or trust. For property purchases of \$10 million or more, "it's done almost 100% of the time," says Tomer Fridman, a partner at Ewing & Associates Sotheby's International Realty in Calabasas, Calif. The allure of an LLC goes beyond anonymity. It provides the legal pro-

tections that a corporation offers without the extensive paperwork and fees. Under an LLC, if someone were injured while visiting the home, the visitor could sue the company but not the individual homeowner, thus protecting the homeowner's assets. An LLC also has "pass-through taxation," meaning that any profit or loss passes through the company and onto the individuals who own it. They, in turn, report the profits or losses on their personal tax returns. (A corporation, conversely, must pay taxes twice, once on the profit and again when profit is distributed to shareholders.) With a single-owner LLC, the capital-gains tax rate is also lower, says David Hryck, U.S. head of international tax at New York-based law firm SNR Denton. An LLC member can also funnel expenses, such as landscaping costs and homeowner-association dues, through it, says Matthew Richardson, a partner at Sheppard Mullin Richter & Hampton law firm in Los Angeles. There are challenges to LLCs and trusts, too. For one, annual-report filing fees and taxes can add up quickly, particularly if a person sets up a separate LLC for each property owned. In California, for example, the minimum tax for each LLC is \$800. To further complicate matters, some buyers will set up double LLCs so that, for example, an LLC in Nevada is owned by an LLC in Delaware. In short, because fees and tax regulations vary by state, home buyers should consult a lawyer or financial adviser before setting up an LLC.

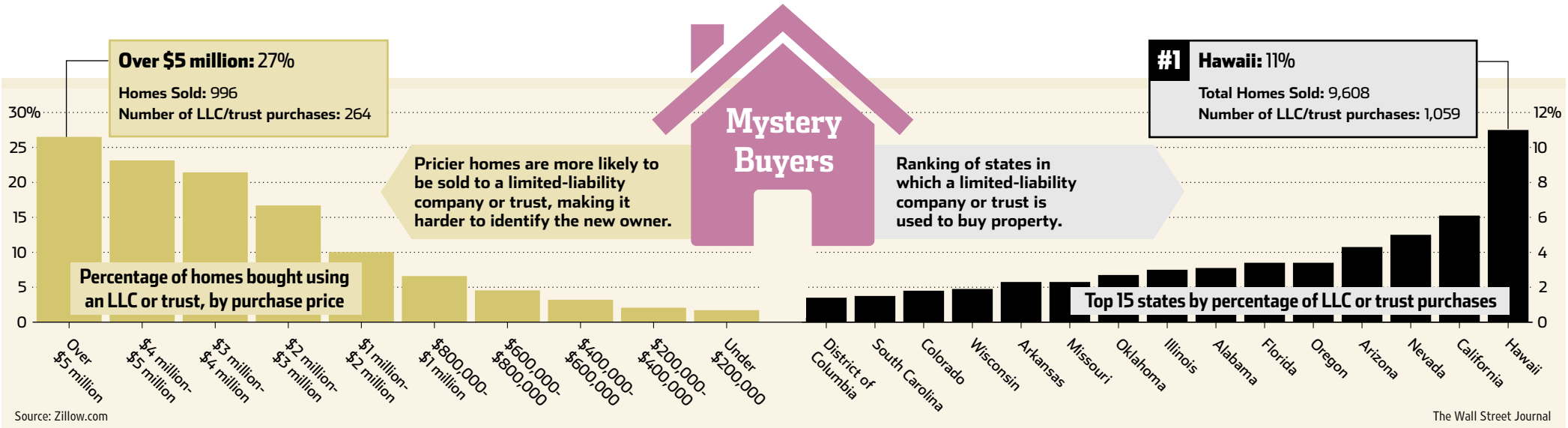


Illustration by Keith Negley

LLCs first became popular in the 1990s, but their use increased after the economy soured, typically because wealthy individuals wanted to cloak conspicuous purchases. Some hedge-fund managers and bankers, for example, bought under LLCs when they "normally wouldn't have," says Edward Mermelstein, a real-estate attorney in New York. Adds Rob Giem, an agent in Orange County, Calif.: "A lot of people in our marketplace were doing phenomenally well but felt it was in bad taste to let people know about the \$25 million house they just bought." The increase in investors buying properties to rent out has also fueled LLC ownerships, says Stan Humphries, chief economist at Zillow. In Hawaii, 11% of all homes sold last year used a legal entity, making it the No. 1 state for LLCs, Zillow research

found. California, at 6.1%, came in second. David Banks, a partner at Honolulu law firm Cades Schutte, says many Hawaiian homes are purchased as investment properties and need the liability protection. In addition, the state has some of the lowest annual-report filing fees—only \$25 compared with Maryland's \$300. Many LLCs and trusts are named after the property address or building, which helps real-estate attorneys who act as managers or trustees keep track of them. Sometimes, buyers and sellers will come to an attorney with a trust named after their kids, their pets or even their favorite Greek mythology figure. There are downsides to LLCs, too. Not every home purchase is eligible because some banks forbid home buyers from financing through LLCs. And co-op apartments in cities like

New York are resistant to allowing people to buy under a legal entity because co-op boards tend to prefer named owners, says Ron Gitter, a real-estate attorney in Manhattan. In the end, however, the biggest snag comes when the entity isn't set up properly, blowing the homeowner's cover. The most common blunder: personal mailing addresses. Paula Del Nunzio, a managing director at New York's Brown Harris Stevens, says she has seen water bills sent to the LLC owner instead of the attorney, which exposes the purchase. Mr. Giem, the agent in Orange County, has found a solution to help protect his ultraprivate clients from swarming paparazzi and inquisitive reporters: In some cases, he has offered up his own personal home address. "To this day, I forward mail to about four different clients," he says.



SPREAD SHEET

After Closing, Movers and Shakers Take Over

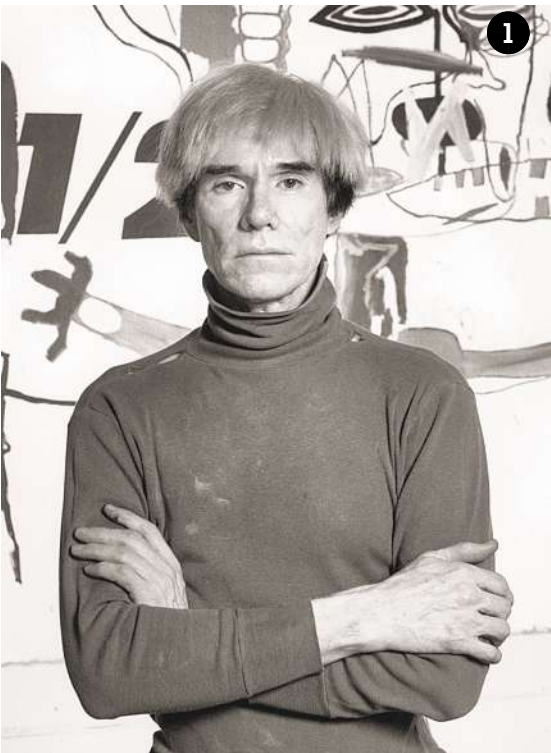
HOW MANY PEOPLE does it take to lift a grand piano? The answer is eight, but three can move one if they know the proper procedure, says Carlos Sutton, president of Tempo Limited. More than 46 million U.S. residents move each year, according to the U.S.

Census Bureau. But transporting certain items, like antiques, fine art or heirloom furniture, requires more finesse than simply chucking them into a moving truck. For insights into these moves, Spread Sheet turned to Tempo Limited, a Miami-based moving company that specializes in trans-

porting high-end goods. One of Tempo Limited's most expensive moves involved transporting an art gallery from Miami Beach, Fla., to London. It took three weeks for a dozen Tempo movers to pack and crate the approximately 400-piece collection.

Part of the job involved packing up the 40 to 60 chandeliers—some with more than 150 crystals each, Mr. Sutton says. Each piece of crystal had to be individually wrapped with tissue paper and hung upright in wooden crates. It took 10 trucks to transfer the collection to the port of Miami, where

movers loaded the crates onto a boat for London. The total cost: about \$500,000. Moves within the continental U.S. usually go by truck. Particularly valuable items are strapped into the center of a climate-controlled truck, the most stable part of the vehicle. "And, God forbid, [if] we crash, we want to keep it away from every corner of the truck to protect it," Mr. Sutton says. Tempo, like many movers, does not insure the owners' items, so owners must carry their own coverage in the event of loss or damage. Once on the road, drivers keep going until they reach their destination, since having a truck parked somewhere overnight makes it more susceptible to accidents or theft, he says. At least three to four drivers are assigned to each truck, and sometimes as many as eight will drive a single truck. Want to move a Rolls-Royce Silver Shadow cross-country? There are specialty car-movers for that. Neil Pitt, president of Lebanon, Mo.-based Passport Transport, says the company recently moved an \$11-million Ford GT40 from Monterey, Calif., to Salt Lake City. Cars are typically transported six at a time, but high-end vehicles like the GT40 travel solo. With the oversize up-charge and expedited delivery, the entire move cost \$5,600. —Sanette Tanaka



Road Trip

The estimated cost of wrapping and trucking four high-dollar items from Los Angeles to New York.

TYPE OF ITEM	DESCRIPTION	COST TO MOVE
1. Artwork	Andy Warhol 'Shoes'	\$4,375
2. Luxury car	Mercedes-Benz	\$3,185
3. Large antique desk	Louis XV parquetry bureau de dame	\$1,850
4. Sculpture	'The Little Fourteen-Year-Old Dancer,' Edgar Degas	\$28,950

Source: Tempo Limited and Passport Transport