



16 - Investment Structures - ch. 18

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▼ Supplemental

▼ Lecture

▼ organizational forms

▼ minimize taxes, limit liability, and define management roles in investments

▼ partnerships, LLCs, and REITs are primary legal entities used to structure acquisition and ownership of investments

▼ pass through entities

Resources

https://s3-us-west-2.amazonaws.com/secure.notion-static.com/32252462-c890-4479-bf5b-46df79a9a6aa/14_-_STRUCTURING_REAL_ESTATE_INVESTMENTS_-_Chapter_18.pdf

- ▼ do not pay taxes directly, but pass on taxable income or loss to partners, members, or shareholders
- ▼ these members report their allocable share of taxable income or loss
- ▼ partnerships
 - ▼ either general partnership or limited partnership
 - ▼ all partnerships are pass through entities and have finite life
 - ▼ title to property owned by partnership will be in the name of the partnership
 - ▼ in a general partnership, each GP has decision making authority and unlimited liability
 - ▼ a limited partnership must have at least one general partner who has decision making authority and unlimited liability
 - ▼ Lmted partnerships can have any number of LPs with no decision making authority and liability limited to amount of their investment
 - ▼ partnership interests are personal property and not eligible for 1031 exchange

- ▼ a partnership agreement governs agreements of the partners
- ▼ limited liability company LLCs
 - ▼ 1988 IRS approved LLC and 1994 California (46th) enacted LLC law
 - ▼ LLC investors are members and all members have limited liability
 - ▼ CA: ≥ 1 is needed to form an LLC and have unlimited life
 - ▼ LLCs managed by managing member or third party and can elect pass through status for tax and are governed by an operating agreement
- ▼ limited liability partnership LLP
 - ▼ CA: only professional orgs can be LLPs (law firms, etc.) → no LLPs for real estate investments
- ▼ corporations
 - ▼ legal entities owned by shareholders and managed by a board of directors
 - ▼ have unlimited life and governed by articles of incorporation and bylaws
 - ▼ dual taxation (corporate "C" and shareholder "S" level)

makes “C” corps unattractive for property investments

▼ “S” corps have shareholder restrictions but can elect pass-through status

▼ joint venture

▼ not a legal US entity → an agreement between ≥ 2 parties for an investment objective

▼ typically involve a partnership, LLC, or corp, or other legal entity

▼ syndication

▼ not a legal entity → a means of financing investments

▼ sells partnership/LLC interest in a project to public (Grant Cardone)

▼ capital account

▼ accounting of an investor's share in net worth of an entity

▼ Discussion



SUMMARY