

Business Structure for Real Estate Investors

According to the U.S. Fidelity Investments reported that 88% of millionaires are self-made. These tycoons have many things in common such as being ambitious, motivated, and investment-wise. And [real estate](#) has been and will always be their best investment. [Risks](#) are inevitable in every business. However, aside from being risk-tolerant, successful real estate entrepreneurs also studied the best ways of investing their hard-earned money. Today, we are going to discuss some of the real estate business fundamentals that these successful people also learn from investing in books. We are going to tackle the business structures you can choose from when [building your real estate empire](#), as well as the factors you need to consider when choosing.

Types of Business Structures for Real Estate Investing

In [starting a real estate business](#), you have to consider the type of ownership you want. These types have helped grow the real estate industry through the advantages of investing that go along with them. Here is a checklist of the business structures for [real estate investing](#).

Sole Proprietorship

The simplest and cheapest way to organize any business is through a sole proprietorship structure. One person only owns this type of real estate business. Therefore, you only need the usual regulatory requirements, permit and license to operate. If you are an independent contractor for a broker, then a sole proprietorship is simple and inexpensive for your startup. You save time and money because filing a separate tax return for your business is no longer necessary.

Partnership

Two or more persons own this structure. If you enter into a venture with a broker or more, partnership automatically exists. Each owner will contribute property, money, or services and will get their fair share of profit in return. The owners can also decide who will manage the business and distribute roles. What you'll acquire from this partnership will be owned by all the owners. These aren't owned by partners individually. Also, partners in real estate brokerage should still be licensed brokers. The profits, losses, other expenses, and tax are also distributed to the partners. Therefore, owners will pay their individual taxes accordingly.

LLC

Risks and pitfalls are always present in the real estate business. However, the [Limited Liability Company](#) structure can protect your assets, such as home, investments, and personal bank accounts. This will also protect you from being sued when the business gets amiss. This structure separates firms from investors. Therefore you should consider these businesses as separate entities. From the name of the structure itself, the company investors and owners' liabilities are limited when the transaction encounters cases of debts and lawsuits. In LLC, the investors can own or purchase real estate in the name of the company, and not as an individual. Taxes of the company are also paid separately from personal taxes.

S Corp

In an S Corporation, the owners pay themselves a salary and get dividends from profits that the corporation earns. The remaining gains that are distributed to the owners are taxed lower than income. Forming an S Corp has strict requirements such as required citizenship or residency of owners, the limited number of shareholders, percentage limitation on passive income, and reasonable salary. Profits and losses must also be distributed to the shareholders in the right proportion. Additional state taxes for S Corp is also possible. Failure to adhere to these requirements will put the company structure at risk and may be disallowed to operate as an S Corp.

C Corp

According to the Bigger Pockets, active real estate investors prefer this type of structure. With C corp, you also have a separate legal identity from the company. You attract more investors, such as venture capitalists and other types of equity financing, because it can have multiple classes of stocks and an unlimited number of owners. Additionally, there are no restrictions on citizenship and residency to own these stocks. The Board of directors directly manages the corporation and runs the day-to-day operations.

Real Estate Investment Trusts

REIT is also a company that owns and operates real estate. Mostly, this type of company owns office and apartment buildings, hotels, shopping centers, hospitals, and warehouses. Some REIT entities also finance real estate. The structure of a REIT can be a corporation, trust, or association. More than a hundred people should manage these trusts. Annually, REITs are required to distribute dividends to shareholders from their 90% taxable income as per the Nareit. The REITs earn through long-term leases of properties and interest payments from financing real estate. This type of entity has a high level of income and an easily understandable business model.

Multiple Entities

This type of structure is for entrepreneurs who want to pursue a lot of opportunities in the marketplace promptly. These are large businesses that have multiple business structures. There can be a separate entity for operations, resources needed for services, and valuable assets of the company, such as software, websites, patents, and other intellectual property. The assets have separated legal liabilities in this type of structure.

How to Choose the Best Business Structure

There are factors you need to consider before choosing a legal structure. Consider the level of control that you want on your business. The structure you choose will also affect what you will legally own. Think of the liability and risks you are willing to take down the road. Some structures will protect your assets. Think of the costs and complexity you are capable of. Your business goals should also coincide with the legal structure of your choice since it will affect the administration and management areas. Tax payment is also another aspect you should consider. Lastly, think of the longevity you want for your company. Do you want to have a sole decision on ending things? Do you want to secure your family's future? Corporations can have perpetual existence. Your business structure will affect your business rights and goals.

To achieve the growth and stability you want for your business, carefully choose the business structure that best fits you on your goals. Consider every factor stated above when selecting, and you will save time, money, and effort from the possible and inevitable pitfalls in the real estate business.