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Is an LLC a Necessity For a Joint Purchase?

By **JAMES R. HAGERTY**

Special to RealEstateJournal

Question: Is it necessary to create a limited-liability company with someone if you plan to purchase an investment property with someone? I might invest again with this person, or I might not. Are there any tax implications that I need to be think about? Could this scenario work with just a partnership agreement? Could we change that partnership to an LLC or something different in the future?

--Tom, location not provided

Tom: I put your question to William Bronchick, author of "Wealth Protection Secrets of a Millionaire Real Estate Investor" (Dearborn Trade, 2003). As a lawyer and writer of manuals for making a killing in real estate, he could give you a clear and unambiguous answer, I figured.

"It depends," Mr. Bronchick said.

Actually, that's a pretty good answer. You'll have to consider your own circumstances carefully, talk to a lawyer you trust and perhaps consult a tax adviser as well. (Don't worry. After you make your first few millions, it gets easier.)

But Mr. Bronchick kindly shared a few of his secrets free of charge. It's often a good idea to set up a limited-liability company, or LLC, to avoid exposing your personal wealth to unlimited liability in the event that you're blamed for something that happens on your investment property, he said. It's a particularly good idea to have an LLC if you're investing in a bad neighborhood or buying a multifamily building.

An LLC also could help protect you from any financial problems that may engulf your partner. If the property is owned by an LLC, Mr. Bronchick said, your partner's creditors couldn't force a sale to meet his debts.

One disadvantage is that some states charge stiff annual fees to owners of LLCs. Check out those fees before you proceed. In some such states, he said, you can reduce the annual cost by forming a limited partnership instead.

Hiring a lawyer to set up an LLC probably will cost around \$500, Mr. Bronchick said. He advises finding a patient one who will talk you through all the legal and tax ramifications of your decision. You'll also have to pay a filing fee to your state to set up the LLC. Those fees vary, but a few hundred dollars is fairly typical, Mr. Bronchick said. He added that a partnership can easily be changed to an LLC.

-- Mr. Hagerty is a staff reporter for The Wall Street Journal. His "House Talk" column appears most Fridays on

RealEstateJournal.com. [E-mail him](#) your questions about the residential real-estate market. Please include your first name and city and state. If your question is answered and posted, we will show your first name and city. Due to volume of mail received, we regret that we cannot answer every question.

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