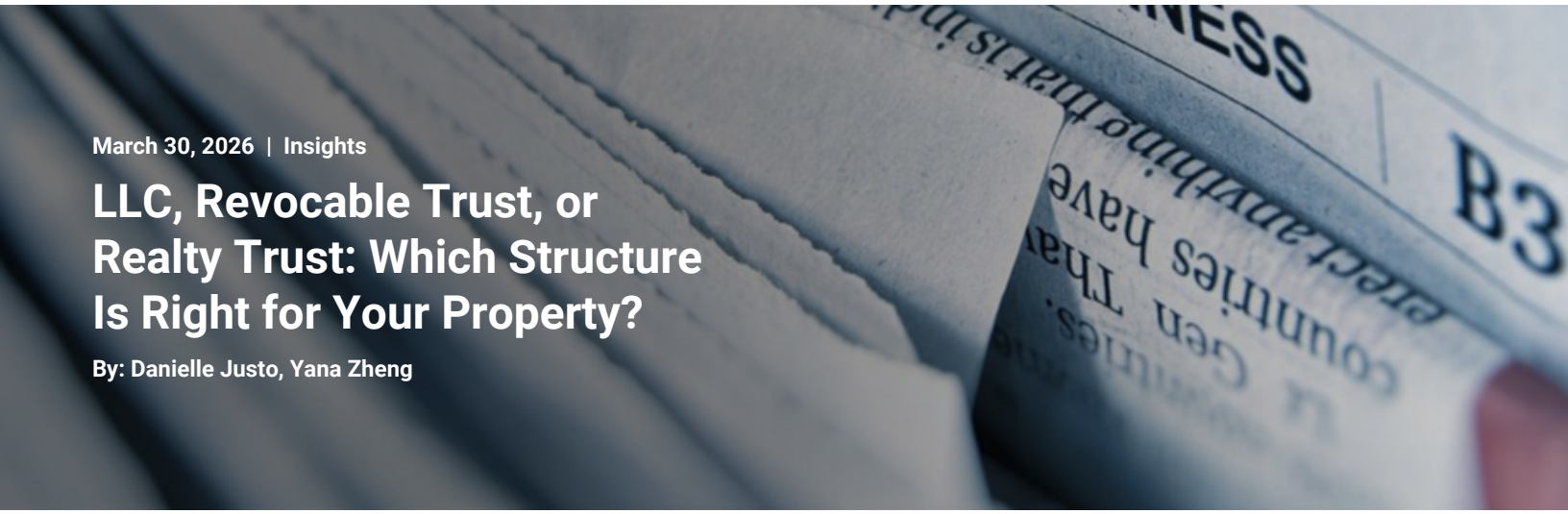

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LLC, Revocable Trust, or Realty Trust: Which Structure Is Right for Your Property?

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When it comes to holding real estate, especially investment properties or multiple properties across different states, many owners feel confused about what type of entity they should use. Holding everything in your individual name may seem simple, but it can create significant risk: if one property becomes involved in a lawsuit or liability claim, your other assets could be exposed. In addition, if you pass away, all properties held under your individual name may need to go through a lengthy and public probate process before transferring to the next generation.

This article outlines three of the most commonly used structures: revocable trust, realty trust, and limited liability company. While irrevocable trusts can provide creditor protection, they require permanently giving up control of the asset and involve complex tax planning, so we are not focusing on them in this article.

Revocable Trust

A revocable trust is primarily an estate planning tool. Its biggest advantage is avoiding probate, which allows properties held in the trust to pass directly to beneficiaries without going through a court process. It helps maintain privacy and simplifies succession procedure. However, a revocable trust offers no creditor protection: properties held by the trust are generally treated as being directly owned by the beneficiaries. It also requires proper setup and ongoing coordination with an estate planner and attorney, and it generally does not reduce tax exposure.

Realty Trust

A realty trust is used specifically to hold title to real estate. It can provide some privacy, as beneficiaries are listed in a separate schedule rather than in public records, and it can make transferring interests more straightforward (such as percentage gifts to adult children). However, it offers no probate advantage or creditor protection: beneficial owners are treated much like direct owners. Additionally, it is limited to holding real estate and cannot hold other types of assets.

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Limited Liability Company (LLC)

An LLC provides the strongest overall liability protection. It protects assets outside the LLC from property-related liabilities, allows flexible ownership structures, offers pass-through taxation, and makes transferring interests easier. It is increasingly popular for investment and rental properties.The downsides include cost and maintenance. For example, in Massachusetts, the annual renewal fee is approximately $520. The LLC must maintain separate bank accounts and proper records. If an owner commingles funds or ignores formalities, the liability protection can be pierced. In addition, Massachusetts does not allow homestead protection if the home is held in an LLC. For more information regarding homestead protection, please refer to our previous article Review of the Massachusetts Homestead Exemption in Light of Recent Changes.

There is no one-size-fits-all solution. Your choice should depend on your priorities: liability protection, estate planning, privacy, easy management or a combination of these. These structures can also be strategically combined. For example, a revocable trust can be a member of an LLC, providing both estate planning benefits and liability protection, which is especially useful when managing multiple properties across different locations. Ultimately, the right strategy balances your goals, risk tolerance, and long-term plans for your real estate portfolio. If you have questions about setting up real estate holding entities or estate planning, please feel free to contact Danielle Justo or Yana Zheng.

Disclaimer: This summary is provided for educational and informational purposes only and is not legal advice. Any specific questions about these topics should be directed to attorney(s) Yana Zheng and/or Danielle Justo.

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