

PROTECT IT

# LLC Protection for Real Estate

Structure That Holds

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Real estate builds wealth. The wrong structure loses it. How you hold your properties determines what is at risk when something goes wrong — a lawsuit, a tenant dispute, an accident on the property. Getting the structure right is not complicated. But it has to be done deliberately, and it has to be done before the problem arrives.

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## SECTION 1 — WHAT IT IS

When you own real estate, the way you hold title to that property determines your legal exposure if something goes wrong. Owning property in your personal name means that a lawsuit connected to that property can reach your personal assets — your savings, your other investments, everything you own. Holding property inside a properly structured LLC creates a legal wall between the property and everything else you have built.

This is not about hiding assets or avoiding legitimate obligations. It is about making sure that one bad event — a tenant injury, a slip and fall, a dispute that escalates to litigation — is contained to the entity that holds that property and does not spread to the rest of your portfolio or your personal wealth.

### Why One LLC Per Property Is the Strategy

The most important concept in real estate asset protection is separation. If you own multiple properties and hold them all under a single LLC, you have created one pool of risk. A lawsuit against any one of those properties can reach the assets of every other property inside that same LLC.

The strategy that experienced real estate investors use is simple: one LLC per property. Each address is its own legal entity. A lawsuit at 123 Main Street can only reach the assets inside the LLC that holds 123 Main Street. The property at 456 Oak Avenue — held in its own separate LLC — is not reachable. It is legally walled off.

### The Firewall Principle

Think of each LLC as a firewall. A fire in one room does not have to burn the whole house — if the walls between rooms are built to contain it. One LLC per property builds those walls. Every property you acquire without its own LLC is a room with no firewall. One lawsuit can reach all of it. The cost of forming an LLC — typically a few hundred dollars in most states — is one of the lowest-cost, highest-impact protection decisions in real estate.

### Ownership Structure Options

There are several ways to structure LLC ownership for a real estate portfolio. The right approach depends on the size of the portfolio, the investor's tax situation, and the level of privacy and management efficiency they need.

STRUCTURE	HOW IT WORKS	BEST FOR
Single LLC per Property	Each property is owned by its own individual LLC. You own the LLCs personally or through a holding entity.	Investors with a small-to-mid-size portfolio who want clean separation between properties and straightforward management.

Series LLC (where available)	A single LLC with legally separated 'cells' — each cell holds one property and is protected from the others. Not available in every state. Must be drafted carefully to be effective.	Investors in states where Series LLCs are recognized who want the protection of separate entities with less administrative overhead.
LLC + Holding Company	Each property LLC is owned by a parent holding company rather than by you personally. Adds an additional layer of separation between the properties and your personal identity.	Investors with larger portfolios or those who want additional privacy. The holding company structure also simplifies estate planning and ownership transfer.
LLC + Land Trust	The property is held in a land trust for privacy, and the LLC is the beneficiary of the trust. Combines privacy of the trust with liability protection of the LLC.	Investors who want to obscure their ownership of specific properties from public record — useful in competitive markets or for high-profile individuals.

### What Happens Without the Right Structure

SCENARIO	ALL IN ONE LLC	SEPARATE LLC PER PROPERTY
Tenant injured on the property — sues for \$500K	Lawsuit can reach all properties in the LLC plus your personal assets if the LLC is pierced. Your entire portfolio is at risk.	Lawsuit is contained to the LLC holding that one property. Other properties and personal assets are not reachable.
Major repair needed — contractor dispute escalates to litigation	Legal action taken against the LLC or against you personally if held in your name. All assets in that entity are exposed.	Legal action confined to the single-property LLC. The contractor can only reach what is inside that entity.
Property-related debt goes into default	If you personally guaranteed the debt, your personal assets are reachable. If held in one LLC with multiple properties, all properties in that LLC are at risk.	Default is isolated to the LLC holding that property. Other properties and personal assets have a layer of separation.
You are sued personally for an unrelated reason	A judgment against you personally can potentially be used to seize assets — including real estate held in your name.	Properties held in LLCs are owned by the LLC, not by you personally. A judgment against you does not automatically reach LLC-held property.

## SECTION 2 — WHY IT MATTERS FOR YOU

Real estate is one of the primary vehicles for building generational wealth. It produces income, appreciates over time, and can be passed to the next generation in a tax-efficient way. But it also carries real liability. Tenants get injured. Properties fall into dispute. Environmental issues surface. Contractors file liens. Every property you own is a potential lawsuit you are managing — and the structure you use to hold it determines whether that lawsuit stays contained or spreads.

### The LLC Must Be Maintained to Work

Forming an LLC is the first step. Maintaining it properly is what keeps the protection in place. A court can pierce the corporate veil of an LLC — meaning it can ignore the legal separation and hold you personally liable — if you treat the LLC as an extension of yourself rather than as a separate legal entity. This is not a hypothetical. It happens regularly in real estate litigation.

REQUIREMENT	WHY IT MATTERS
Separate bank account for each LLC	Every LLC must have its own dedicated bank account. All income and expenses for that property flow through that account only. Commingling funds — using the LLC account for personal expenses or mixing properties — is one of the primary grounds for piercing the veil.
All property expenses paid through the LLC	Repairs, insurance, taxes, management fees — everything related to the property must be paid from the LLC account, not from your personal account. Even one payment from the wrong account creates a commingling argument.
Leases and contracts signed in the LLC's name	Tenant leases, vendor contracts, and any agreement related to the property must be signed by the LLC, not by you personally. If you sign as an individual, you may be personally on the hook for what that document creates.
Annual filing requirements met in your state	Most states require annual reports and fees to keep an LLC in good standing. A dissolved or lapsed LLC has no liability protection. Set calendar reminders for every LLC's annual filing deadline.
Operating agreement in place and current	The operating agreement is the internal governing document of the LLC. It establishes ownership, decision-making authority, and what happens if an owner wants to exit. Every LLC should have one — drafted by an attorney, not just downloaded from the internet.
Do not personally guarantee LLC debt where possible	If you personally guarantee a loan held by the LLC, the lender can come after you personally if the LLC defaults. Avoid personal guarantees where possible and understand the implications when they are required.

### The Due-on-Sale Clause — What to Know Before You Transfer

If you own a property with a mortgage and transfer it into an LLC, your lender's due-on-sale clause may technically allow them to call the loan due immediately. In practice, lenders rarely enforce this on transfers to a single-member LLC where the borrower remains in control — but it is a real provision and a real risk. Before transferring a mortgaged property into an LLC, consult with a real estate attorney who understands your specific lender's position on this. Some investors purchase new properties directly into the LLC from the start to avoid this issue entirely.

## Tax Considerations — What You Need to Know

A single-member LLC is a pass-through entity by default — the income and losses flow through to your personal tax return. For tax purposes, it is treated as a disregarded entity, meaning you report the income on Schedule E just as you would for personally held property. The LLC does not change your tax treatment — it changes your liability exposure.

Multi-member LLCs are taxed as partnerships by default, which adds complexity. Depreciation, cost segregation, 1031 exchanges, and the tax treatment of rental income all continue to apply regardless of the LLC structure. A CPA with real estate experience is the right professional to advise on the tax layer — not the same conversation as the liability protection layer, but they must be coordinated.

### LLC + Insurance: Both, Not Either

An LLC limits your personal liability exposure from the outside. Landlord insurance protects the property and covers certain claims from the inside. They serve different functions and both are necessary. An LLC without landlord insurance leaves the LLC itself exposed to claims that could drain the entity's assets. Landlord insurance without an LLC leaves your personal wealth exposed if a claim exceeds the policy limits. The complete protection layer for real estate is: the right structure plus the right insurance on every property.

## SECTION 3 — HOW IT FITS YOUR WEALTH PICTURE

Real estate held in a properly structured LLC is not just a protected asset — it is a transferable, manageable, financeable asset that integrates cleanly with the rest of your wealth infrastructure. The structure you use affects how properties are taxed, how they transfer at death, how easily they can be refinanced or sold, and how much of your personal wealth is at risk if something goes wrong.

### LLC Structure + Wills & Trusts

Real estate held in an LLC does not go through probate on its own — the LLC does. If the LLC is owned by you personally, your ownership interest in the LLC enters your estate and goes through probate. If the LLC is owned by a revocable living trust, the ownership transfers through the trust immediately upon your death — no probate, no delay, no court. For a real estate portfolio built to pass to the next generation, the trust-as-LLC-owner structure is the cleaner path. An estate attorney and a real estate attorney need to coordinate on this setup.

### LLC Structure + Family Governance

If your real estate portfolio is part of the family wealth picture, governance determines what happens to it over time. Who can make decisions about selling a property? What happens if one heir wants to liquidate and another wants to hold? A holding company LLC with a clear operating agreement — establishing voting rights, distribution policy, and buyout terms — keeps those decisions inside a structure rather than inside a family dispute.

### LLC Structure + Business Succession

If your real estate portfolio is part of your business — as a developer, a short-term rental operator, a commercial landlord — the succession plan for the business must account for how the properties transfer. LLCs owned by the business entity transfer with the business. LLCs owned personally transfer through your estate. Knowing which is which before you need the succession plan to activate is how you avoid a transfer that goes sideways.

### LLC Structure + Tax Strategy

The LLC itself does not change your tax situation significantly for a single-member structure. But the decisions you make inside the LLC — depreciation schedules, cost segregation studies, 1031 exchanges to defer capital gains, opportunity zone investments — are where the real estate tax strategy lives. A CPA who specializes in real estate investors is not optional at this level. The LLC gives you the structure. The CPA optimizes what happens inside it.

## What to Have in Order for Every Property You Own

Property held in its own dedicated LLC — not in your personal name, not shared with other properties   
 Separate bank account opened in the LLC's name — all income and expenses for this property flow here only   
 Landlord or property insurance policy on the property  Operating agreement for the LLC — drafted by an attorney   
 All leases and contracts signed under the LLC name  Annual filing and fee requirements calendared and current   
 Clarity on whether the LLC is owned personally or by a trust — and whether that aligns with your estate plan   
 A real estate attorney and a CPA both aware of your portfolio structure If you already own properties that are not structured this way, the work is to restructure — not to start over. A real estate attorney can advise on how to transfer existing properties into the right structure with the least disruption.

### **A Note on How PEG Handles This Topic**

This guide is educational. LLC formation, operating agreements, trust structures, due-on-sale clauses, and tax elections all require licensed professionals to execute correctly — a real estate attorney for the legal structure, a CPA for the tax layer, and an estate attorney if the properties are part of your estate plan. State laws vary significantly on LLC requirements, Series LLCs, and property transfer rules. Nothing in this guide constitutes legal, tax, or financial advice. PEG's role is to make sure you understand why the structure matters and what questions to bring to the professionals who build it for you.

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*This resource is part of the Protect It pillar inside Parlor Exchange Global membership. For expert sessions on real estate structure and asset protection, visit the PEP partner workshops inside your membership portal.*