

Your Family's Real Estate Portfolio Is Too Important To Risk Choosing The Wrong Trustee

1. Choosing the Right Trustee
2. Trustee Bandwidth & Connections
3. Contingency Plan

Real estate portfolios come in all shapes and sizes. Whether you have a mountain house for family getaways or a variety of income-generating commercial real estate, it's essential to choose the right trustee to ensure that your real estate investments are effectively managed.

"Real estate is one of the largest asset classes in the world, and high net worth families have been created through the passing down of real estate," said Timothy McCarthy, managing director of Whittier Trust Company. "It's too important to leave such a vital part of your family's portfolio to chance. We always advise our clients to have a business succession plan in place."

Often, people wait until a life-disrupting event occurs—such as illness or death—to put a plan in place. A rush to choose a course can make it challenging for a trustee to get up to speed or to know the background needed to deftly manage the asset for beneficiaries. That's why it's prudent to thoughtfully consider the best plan *and* to understand the responsibilities a trustee will uphold. Here are five things to keep in mind when appointing a trustee, so you'll choose the right one for your estate and your goals.

1. Do they have the capacity to navigate tricky interpersonal relationships?

Even in the closest families, having so many personalities in the mix is bound to create some disagreements. Imagine this scenario: the patriarch and matriarch of a tight-knit family buys a vacation home, planning to leave it in their estate for future generations to enjoy. Seems simple enough, right? The once-straightforward arrangement could become more complicated a generation down the line when you may have 10 or 15 people, including grandchildren and children's spouses, who all have a different vision of how they want to maintain the property.

"This is just one of the situations that highlights the importance of engaging a professional trustee," McCarthy explains. "Such a person can act to arbitrate and ensure the property continues to be used in line with your wishes and can mitigate unnecessary strife within the family."

2. Are they equipped to do what's best for the future of the property portfolio?

Some people may be reluctant to consider hiring a professional trustee—or a trustee outside the family—because they worry that their family may lose control of the property. Instead, having an impartial, professional trustee helps ensure that decisions surrounding the property will be in the best interest of all beneficiaries.

“Sometimes one of the beneficiaries may want to pursue a particular course of action, but the other beneficiaries don't agree. In such instances the trustee will work to understand the business plan to assess how each seemingly small decision will impact the property,” says McCarthy. The right trustee can add guardrails as heirs consider how each property in a portfolio will evolve over time.

3. Do they have the time and bandwidth to fulfill the trustee duties?

Managing real estate investments is a big responsibility. It requires ongoing maintenance and connections to professionals, including property managers, real estate attorneys and bookkeepers. Does your trustee have the capacity to oversee all such details?

“Some of our clients have spent their whole lives growing their property portfolio. Once they have multiple residential or commercial properties, the process may be instinctual for them. If they know their team and their tenants, it may only take a few hours a week to oversee,” says McCarthy.

But what is turnkey for a long-time owner may not be so simple for a new trustee, even if the trustee is familiar with the business. In these cases, it may be a good idea to consider a professional trustee, who has the expertise and ability to devote the time and attention to your portfolio needs.

4. Does your chosen trustee have a robust network of the necessary professionals readily available?

For those who work in the professional trustee world, it's not uncommon to see estate property transfers that trigger property tax reassessments. In some high-cost areas, McCarthy and the Whittier Trust team have seen property tax bills balloon from a few thousand dollars to tens of thousands of dollars or higher. “These dramatic property tax increases can have a significant impact on a client's bottom line,” he says, adding that the right planning and resources can help mitigate such consequences.

For example, a savvy corporate trustee can guide your beneficiaries through tax law, connect them to relevant real estate and tax attorneys and shape estate planning before an event occurs. A professional trustee is adept at saving your heirs time and money by tapping into the necessary resources to manage and maintain properties. Forethought and planning pay dividends in the long run.

5. Do you have a contingency plan in place if your chosen trustee becomes unable to oversee your real estate holdings?

Choosing a trustee to manage your valuable real estate holdings will impact your estate and your family, likely for generations to come. The magnitude of such a choice illustrates the importance of deciding on the right person or firm and allowing them the time to gain a thorough understanding of your holdings, your family and your wishes long before they are needed. This also offers a chance for your beneficiaries to meet the trustee and understand how they will be overseeing the portfolio.

“We work with all kinds of different families, but there's a common denominator: transparency regarding trustee choices and wishes leads to greater unity and harmony down through the generations,” says McCarthy.

When structuring the trustee relationship, it's smart to engage an estate planning lawyer to ensure that your family retains flexibility over the trustee in some way. For instance, a remove-and-replace clause can allow your heirs to make a change to the trustees if the relationship is no longer working. Regardless, having a professional trustee in place can minimize disruption and lay the groundwork for a smooth transition.

WHITTIER TRUST COMPANY

South Pasadena 1600 Huntington Dr., South Pasadena, CA 91030 | 626.441.5111

Newport Beach 4695 MacArthur Ct., Ste 1500, Newport Beach, CA 92660 | 949.216.2200

San Francisco 505 Montgomery St., Ste 1200, San Francisco, CA 94111 | 415.283.1850

West LA 11100 Santa Monica Blvd, Ste 1910, Los Angeles, CA 90025 | 310.943.0750

Menlo Park 525 Middlefield Rd, Ste 110, Menlo Park, CA 94025 | 650.609.2300

THE WHITTIER TRUST COMPANY OF NEVADA, INC.

Reno 100 W. Liberty St., Ste 890, Reno, NV 89501 | 775.686.5400

Seattle 520 Pike St., Ste 1415, Seattle, WA 98101 | 206.332.0836

Portland 111 S.W. Fifth Ave., Ste 3150, Portland, OR 97204 | 503.444.3428

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