Should You Leave Your North Bay Investment Property to Your Kids?

Leaving an investment property to your children can preserve family wealth, but it is not automatically the best decision. Before moving forward, you need to know whether your children want the property, can manage it, and understand the financial responsibilities that come with it.

I have seen well-performing properties become difficult family problems because these questions were never discussed. A building that creates steady income for an experienced owner may feel very different to a child who lives elsewhere, has a demanding career, or has no interest in managing real estate.

The right plan starts with an honest family conversation.

Do Your Children Actually Want the Property?

Many owners assume their children will value the property as much as they do. That is not always the case.

You may see years of work, reliable income, and long-term appreciation. Your children may see tenant calls, repairs, vacancies, bookkeeping, refinancing, and difficult decisions with siblings.

Ask direct questions:

- Do they want to own investment real estate?
- Are they comfortable working with tenants and vendors?

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- Do they understand the property's income and expenses?
- Do they live close enough to stay involved?
- Would they prefer income without active management?
- If several children inherit the property, can they make decisions together?

There is no wrong answer. The goal is to understand their interest before making a plan for them.

Are Your Heirs Ready to Manage the Property?

Owning an apartment or commercial building is not passive simply because the property is leased.

Leases expire. Tenants leave. Roofs, heating systems, parking lots, and plumbing need attention. Insurance premiums change, local rules evolve, and loans eventually need to be refinanced.

An experienced owner may handle these issues without much difficulty. An unprepared heir may feel overwhelmed or delay decisions that protect the property's value.

If your children want to keep the property, begin involving them now. Let them review operating statements, leases, repair plans, insurance coverage, loan terms, and annual budgets. Introduce them to the property manager, CPA, attorney, lender, and real estate advisor.

Experience gained today can prevent confusion later.

What Happens When Several Children Inherit Together?

Shared ownership can be one of the largest sources of friction.

One child may want to keep the property for income. Another may need cash. A third may want to renovate, refinance, or sell. Even when family members get along, different financial needs can make joint ownership difficult.

A useful plan should address questions such as:

- Who will make day-to-day decisions?
- Will one person serve as the managing owner?
- How will that person be paid?
- How will major repairs be approved?
- What happens if one heir wants to sell?
- Can one family member buy out another?
- How will the property be valued?

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A trust or ownership agreement may help define these rules, but the legal structure alone does not solve every problem. The family still needs a practical process for making decisions.

What Tax Issues Should North Bay Owners Consider?

The tax treatment depends on how and when the property is transferred.

Property inherited after an owner's death generally receives a new federal income-tax basis based on its fair market value at the date of death, although exceptions can apply. Property given to a child during the owner's lifetime generally carries over the donor's basis. That difference can have a major effect on the taxable gain from a later sale. The IRS explains the general inherited-property basis rules.

California property taxes require separate attention. Under Proposition 19, the parent-child reassessment exclusion generally does not apply to apartment buildings, commercial properties, rental homes, or other investment real estate. The California State Board of Equalization confirms that the exclusion is mainly limited to qualifying family homes and family farms. As a result, an inherited North Bay investment property may be reassessed at market value, increasing its annual property taxes. Review the current Proposition 19 rules with your attorney and tax advisor.

Income tax, estate tax, property tax, and ownership planning are different issues. A decision that helps in one area may create a problem in another.

Could You Simplify the Portfolio Before the Transfer?

If your children want real estate income but do not want active management, you may be able to simplify the portfolio during your lifetime.

One possibility is exchanging a management-heavy property for a property with fewer owner responsibilities. For example, some owners consider a net-leased investment in which the tenant handles many operating expenses. The lease, tenant credit, location, remaining term, and future resale market still need careful review, but the day-to-day workload may be lower.

Another possibility is a Delaware Statutory Trust, commonly called a DST. Certain DST interests may qualify as replacement property in a 1031 exchange when the IRS requirements are met. A DST can reduce direct management responsibilities, but it also gives the investor less control and may involve fees, debt, limited liquidity, and a long holding period.

A DST is an investment security, not simply another building. It should be reviewed with qualified tax, legal, and securities professionals.

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Can a 1031 Exchange Help?

A properly structured 1031 exchange may allow an owner to sell qualifying investment real estate and defer recognition of some or all of the taxable gain by purchasing qualifying replacement real estate.

The key word is **defer**. A 1031 exchange does not automatically erase the gain.

The exchange must follow strict rules. In a typical delayed exchange, the owner cannot take control of the sale proceeds, replacement property generally must be identified within 45 days, and the purchase must normally be completed within 180 days or by the applicable tax-return deadline, if earlier. The IRS provides an overview of 1031 exchanges.

Because the deadlines begin when the original property closes, planning should start before the property is listed for sale. My step-by-step guide to 1031 exchanges explains the process in more detail.

What Should You Do First?

Start by separating the property from the estate-planning paperwork.

First, determine what the property is worth, how it is performing, what repairs or lease issues are coming, and how much management it requires. Then talk with your children about their goals and abilities.

With that information, your attorney, CPA, and real estate advisor can compare the practical choices:

- Keep the property and prepare the next generation
- Improve management and reporting
- Create a clear shared-ownership agreement
- Sell and reinvest through a 1031 exchange
- Move into a less management-intensive asset
- Sell, pay the applicable tax, and diversify outside real estate

No single option is right for every family.

What Is the Main Takeaway?

Do not leave your children a management problem disguised as an investment.

A successful legacy plan considers more than property value. It considers the heirs' interest, management ability, family relationships, future capital needs, taxes, and the condition of the building.

If you own apartment or commercial property in Marin, Sonoma, or Napa and are beginning to think about the next generation, I can help you evaluate the real estate side of the decision. That includes reviewing value, income, leases, deferred maintenance, marketability, and possible replacement-property strategies.

Your attorney and CPA should guide the legal and tax planning. My role is to help make sure the real estate strategy supports that plan.

Let’s schedule a short conversation about your property and the choices ahead.

This article provides general information and is not legal, tax, securities, or investment advice.

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