

Why Real Estate Transactions Use Delaware Single-Purpose Entities (SPEs) — and How to Manage the Costs

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Delaware single-purpose entities (SPEs) have become the gold standard in modern real estate finance, offering predictability, enforceability, and lender confidence. Clients often ask why so many [Delaware entities](#) are required for a single transaction, especially when the structures can feel costly or administratively burdensome. The answer lies in the legal, tax, and lender-driven considerations that shape today's institutional real estate deals, including securitized lending and joint ventures. The following overview explains why Delaware SPEs are widely favored, addresses common client concerns, and outlines practical approaches for managing both compliance and cost.

Why Delaware?

Predictable Legal Framework

- Delaware's Court of Chancery and extensive corporate/limited liability company case law provide unmatched predictability in interpreting governance and contractual provisions.
- This stability is highly valued by lenders and investors.

Flexible LLC Act

- Delaware's Limited Liability Company Act allows operating agreements to contractually override most default rules including waivers of fiduciary duties.
- This flexibility is essential for custom provisions such as "independent director" or "springing member" requirements in bankruptcy-remote entities.

Bankruptcy Remote Structuring

- Institutional lenders (especially in [CMBS](#) and securitized financings) require SPE borrowers whose only asset is the mortgaged property.
- Delaware LLCs are the industry standard for creating bankruptcy-remote structures due to their proven enforceability.

National Acceptance

- Delaware entities are recognized across all jurisdictions, providing comfort for multi-state lenders and investors.

Why So Many Entities?

- **Ownership Layers:** Separate entities for property ownership, managing member, and joint venture partners.
- **Financing Requirements:** Lenders often require distinct borrower entities for each asset to preserve collateral isolation.
- **Tax Planning:** Multiple entities may be used for 1031 exchanges, tenant-in-common structures, REIT compliance, or state-specific tax considerations. For context, see our guidance on [1031 Exchanges and Net Lease Acquisitions](#).
- **Liability Containment:** Each entity acts as a blocker, limiting liability exposure to that entity's assets.

Client Concerns: Expense and Administration

Formation and Filing Costs

- Delaware formation fees and annual franchise taxes add up across multiple entities.

Registered Agent and Annual Reports

- Each entity requires a registered agent in Delaware and annual reporting compliance.

Accounting and Tax Filings

- Even disregarded entities must be tracked separately for accounting purposes.
- In complex joint ventures, multiple partnership tax returns may be required.

Governance Formalities

- Lenders require borrowers to maintain separateness covenants (separate books, accounts, stationery, etc.), which must be observed to preserve bankruptcy-remote status.

Best Practices for Managing Entity Burden

- **Entity Mapping:** Create clear organizational charts showing each entity's purpose to simplify structures for investors and internal teams.
- **Use of Series LLCs (Where Feasible):** While lenders remain cautious, series LLCs may reduce the number of separate filings. For more context, see our discussion of [Series LLC structures in real estate](#).
- **Consolidated Services:** Engage a single registered agent and corporate services provider to streamline filings.
- **Centralized Accounting:** Establish firm-wide systems to track franchise taxes, filing deadlines, and bank accounts.
- **Negotiate with Lenders:** Push back on duplicative entity requirements in smaller or portfolio transactions when possible. For broader structuring considerations, see [Joint Ventures & Structured Investments](#).

Practical Takeaways

- Delaware SPEs provide unmatched predictability and lender acceptance.
- The use of multiple entities adds cost and complexity, but also strengthens liability protection and bankruptcy-remote compliance.
- Governance formalities must be strictly observed to maintain separateness.
- Entity mapping, consolidated services, and centralized accounting help reduce the administrative burden.
- In some cases, negotiating with lenders may streamline unnecessary entity duplication.

Conclusion

Delaware single-purpose entities remain the gold standard in real estate finance for enforceability, predictability, and lender acceptance. While the use of multiple entities increases costs and administrative responsibilities, these structures ultimately protect borrowers and investors by insulating assets, satisfying lender requirements, and facilitating capital markets execution.

With careful planning, centralized administration, and active negotiation where appropriate, clients can reap the benefits of Delaware SPEs while minimizing the burdens.

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