

Hamilton Zanze

Whitepaper

Building a Tax-Deferred Legacy Through Multifamily Investing

Gain an in-depth understanding of tax-efficient estate planning in multifamily investments from leading experts.



The Great Wealth Transfer is Here

The New York Times has reported that the “greatest wealth transfer in history is here.” The trend is largely driven by Baby Boomers, who hold half of the nation’s \$140 trillion in wealth, including \$18.9 trillion in real estate assets. Many of these investors, now in their 60s and 70s, are concerned that their heirs may not be willing or able to manage their real estate portfolio after they are gone. Others are embracing the “giving while living” philosophy, transferring real estate assets earlier so their heirs can get a head-start on building wealth.

Impending tax code changes are also creating a real sense of urgency for investors to make moves in what The Wall Street Journal calls “an unprecedented rush to relinquish wealth.”

“The Trump tax cuts of 2017 temporarily doubled the base amount individuals could give away without paying estate taxes to \$10 million. These cuts are due to expire in 2026, pushing wealthy Americans to move fast.”

There are a number of ways investors can prepare for these upcoming changes, including making tax-free transfers/gifts and setting up trusts to protect wealth over generations.

Hamilton Zanze is a real estate investment firm specializing in multifamily properties for over two decades. In this article, we will:

- Explain why now is a pivotal time to consider wealth management strategies for your family.
- Explore how multifamily real estate investments through a reputable sponsor can provide tax-deferred income and long-term asset appreciation for your heirs.
- Share valuable insights from Susan von Herrmann, an estate planning attorney with Perkins Coie LLP, and Edward Hanley, a tax advisor with CBIZ, two leading professionals with decades of in-depth experience guiding clients through the intricacies of passing down investment properties.

When it comes to protecting your hard-earned wealth and ensuring the financial well-being of your loved ones, few endeavors are as important as estate planning. This is particularly true for real estate investors, due to the unique, and sometimes complex, nature of these assets. A well-crafted estate plan may not only help ensure your assets are distributed and managed according to your wishes after your death, but it may also provide your family with an essential roadmap for building a lasting legacy.

The Great Wealth Transfer is Here

Of the \$84 trillion projected to be passed down from older Americans to Millennial and Gen X heirs through 2045, \$16 trillion will be transferred within the next decade.

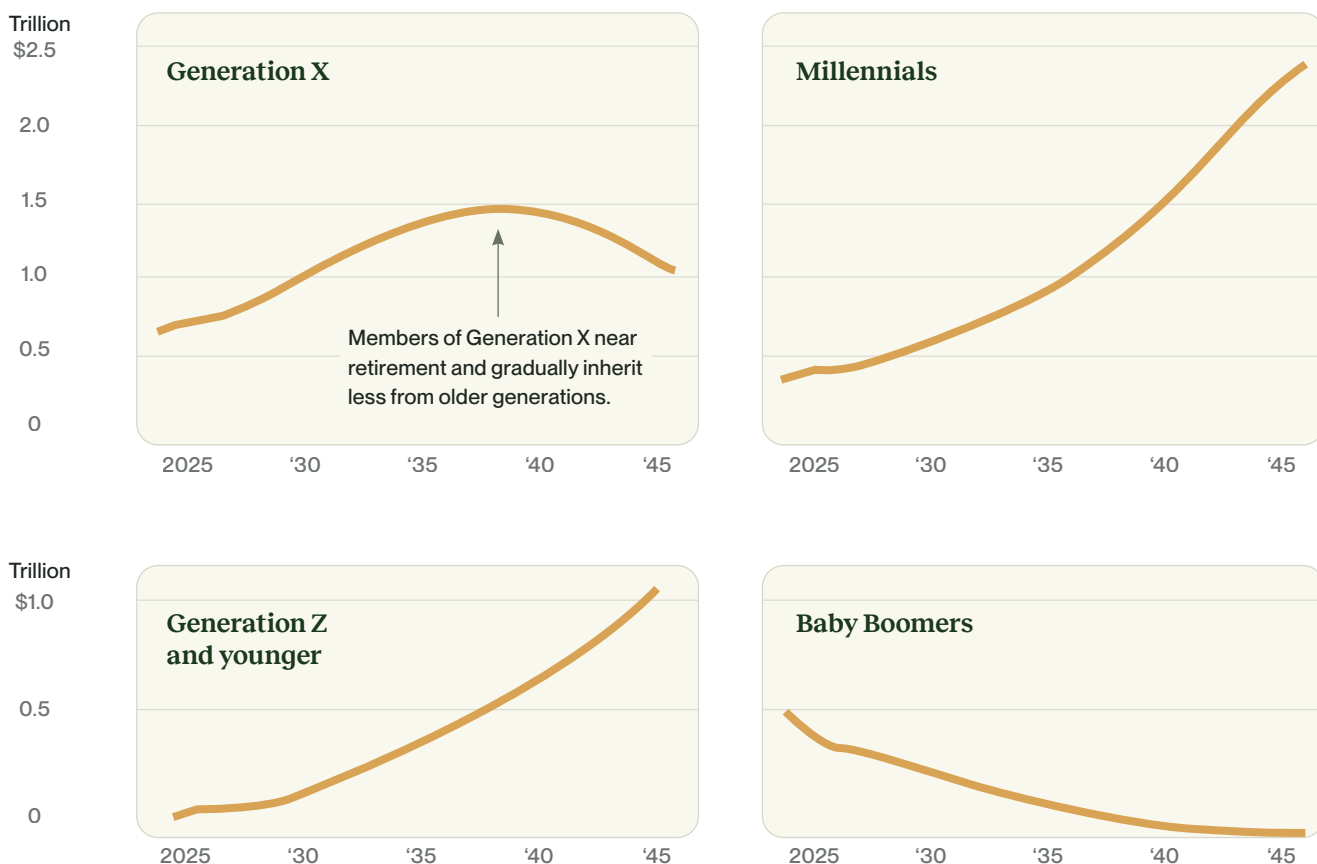
Current Environment

We are now experiencing an era with an unprecedented concentration of wealth in the U.S. and that financial power is on the move, according to [The New York Times](#).

“In 1989, total family wealth in the United States was about \$38 trillion, adjusted for inflation. By 2022, that wealth had more than tripled, reaching \$140 trillion. Of the \$84 trillion projected to be passed down from older Americans to Millennial and Gen X heirs through 2045, \$16 trillion will be transferred within the next decade.”

The impact of this “Great Wealth Transfer” from one generation to the next will be significant. Smart investors are planning ahead, having in-depth conversations with trusted advisors and family members about building not just wealth, but legacies for the next generation. This includes discussions of how real estate investments fit into their overall estate plan.

Annual Wealth projected to be inherited by each generation



Source: Cerulli Associates, *New York Times*

Why Invest in Multifamily Real Estate



There are many reasons why investing in multifamily real estate remains a compelling, time-tested strategy for building long-term wealth and, in turn, financial security for future generations. Here are just a few:



Portfolio Diversification

Asset-backed investments, specifically in multifamily properties, are generally less susceptible to market volatility, with a low correlation to stocks and bonds. This makes them an important component of a diversified portfolio and an effective way to grow wealth that can be passed on to heirs.



Income Generation

Multifamily investments can provide consistent, tax-free income for the owners – and eventually their heirs – through distributions, depreciation and long-term appreciation. Apartments have historically outperformed other commercial real estate assets in economic downturns and can serve as an effective hedge against inflation. Demographic trends, combined with high demand and limited supply of rental housing in key U.S. markets, also strongly favor the long-term outlook for multifamily real estate investments.



Long-Term Appreciation

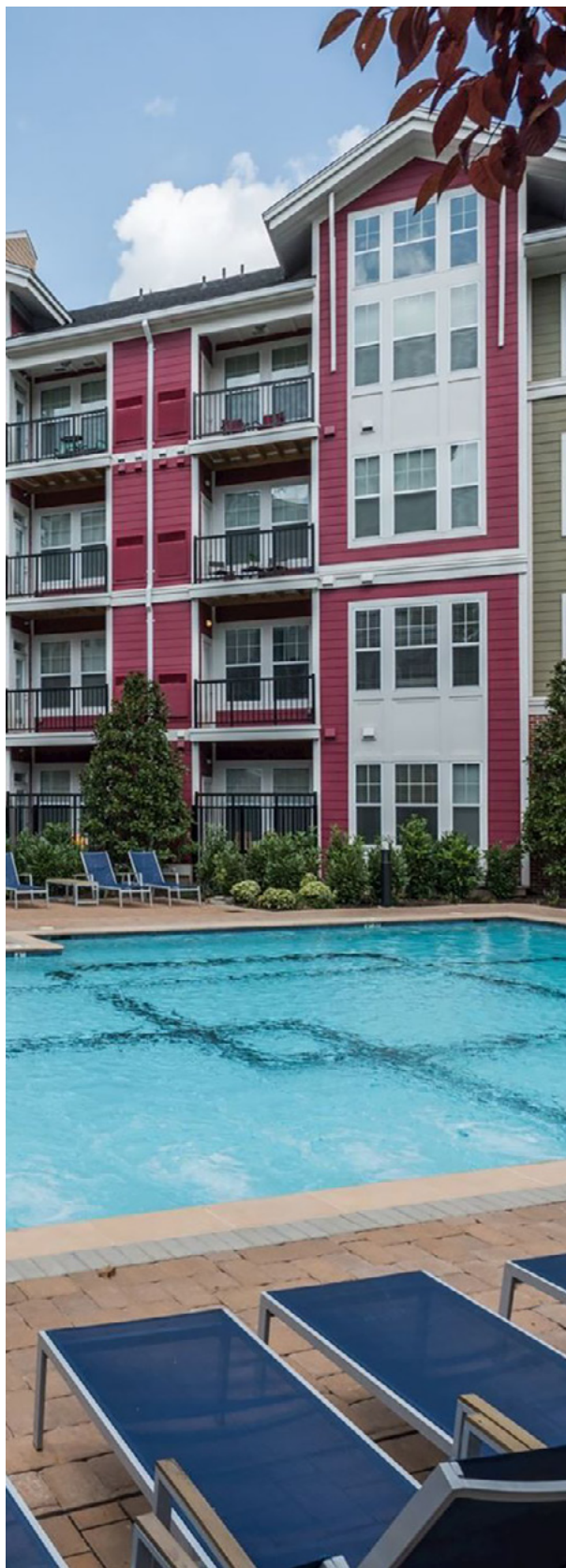
By investing in properties with potential for appreciation, investors can benefit from the long-term growth of their real estate assets, further increasing their wealth accumulation.



Tax Benefits

In addition to potential steady cash flow and long-term appreciation, multifamily real estate investments offer a number of tax advantages for both you and your heirs.

Why Invest in Multifamily Real Estate



1031 Exchange Opportunities

Named for Internal Revenue Code Section 1031, this provision allows investors to defer capital gains taxes by reinvesting the proceeds from the sale of one investment property into another like-kind property. This can be highly beneficial for estate planning, as it allows for the preservation and potential growth of wealth while deferring taxes.

Pass-Through Taxation

Multifamily investments can provide flexibility in allocating income and losses for estate planning purposes. Multifamily investments that are structured as partnerships, limited liability companies (LLCs), or real estate investment trusts (REITs) typically offer pass-through taxation, which means that the income, deductions and losses generated by the investment flow through to the individual investors' personal tax returns.

Depreciation Deductions

Investors can benefit from taking depreciation deductions against rental income, which can help lower the taxable income generated by the investment. This can be particularly advantageous for estate planning purposes, as it can reduce the overall tax burden on the property's income.

Reduction of Estate Tax

Investing in multifamily properties can be an effective part of an overall estate planning strategy. For example, placing properties into trusts or gifting interests in multifamily investments can help reduce the taxable estate and provide an efficient transfer of wealth to heirs.

It is important to note that the specific tax benefits and implications of investing with a sponsor like Hamilton Zanze will depend on the specific investment structure, tax laws and the individual circumstances of the investor. Be sure to consult with a qualified tax professional or estate planning attorney to assess the specific tax benefits and implications of any multifamily investment that is purchased for estate planning purposes.

Why Invest in Multifamily Real Estate

Setting Your Family Up for Multi-Generational Success

We work with a number of high net-worth individuals and families who have incorporated Hamilton Zanze investments into their estate plans. To help illustrate how this process works, we recently spoke with a family who has invested extensively with us for the past 15 years, so they could share some of their insights and advice for other investors. (We are omitting their names for privacy purposes.)

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Our family has a long history of investing in real estate, starting more than 30 years ago when our father purchased a commercial property to run his business. Over time, as he continued to acquire additional investment properties and grow his portfolio, he recognized the tremendous value of these holdings for estate planning purposes. He was committed to creating a plan that provided financial security not just for us, but for his grandkids and future generations as well. It was very much about building a lasting legacy, which we continue to honor with our approach to investments today.

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No one wants to see their hard-earned wealth tied up in probate or to have family harmony threatened by financial disputes.

The siblings were brought into the investment process as young adults, and have remained active investors with Hamilton Zanze over the years.

“We really appreciate the passive investment experience with Hamilton Zanze, which allows us to generate income and invest in the future without all the headaches of actively managing properties day to day. From finding properties and arranging financing, to dealing with maintenance issues and managing tenants, there is a lot that goes into successful real estate investing. With Hamilton Zanze handling all these essential but tedious details for us, we can instead focus on our larger investment strategies, making sure we are in the best possible positions today while also planning for tomorrow.”

They both emphasized the importance of having open, ongoing conversations as a family about estate planning to make sure everyone is well-informed, educated and on the same page. While these discussions can be difficult, the consequences of avoiding them can be devastating, both financially and emotionally. No one wants to see their hard-earned wealth tied up in probate or to have family harmony threatened by financial disputes.

Experts Weigh In



Susan von Herrmann

Estate Planning Attorney

Attorney Susan von Herrmann is a Partner in the estate planning practice at Perkins Coie LLP, a national law firm. Her clients include multigenerational families with inherited wealth; technology company executives; founders and leaders of hedge, venture, capital and other types of investment funds; family-business owners; real estate developers; and partners in professional service firms. Susan works hard to guide her clients through the process of preserving their wealth with plans that reflect their values and vision for the next generation and the legacies they wish to build.

“There is an old joke that the State of California (or whatever state you live in) has an estate plan for you and you’re probably not going to like it,” said Susan. “That’s why creating your own estate plan is essential. I work with clients to do basic planning as well as wealth transfer planning during life where estate tax is a concern. And it’s critical to keep these plans updated – assets change, families change, goals change, and laws change. Your estate plan needs to keep up with all that. One of the most common mistakes people make with respect to estate planning is thinking it’s a one-and-done exercise.”

Susan has worked with Hamilton Zanze for 20 years, as have many of her clients – and is also an investor herself. We asked her to share some insights gained from her many years working in this field.

If you sell property with low basis and don’t exchange that property into a like-kind asset, you will be faced with substantial capital gains.

“For my clients who have investment properties, their biggest concerns are not just how much money they can make during their lives, but what’s going to happen to those assets when they are no longer around to run them. How can the properties continue to benefit their families? What are the tax implications? What often happens is people want to get rid of properties to simplify things, but there’s a big danger in doing that. Investment properties are typically depreciated and the basis can become very low. If you sell property with low basis and don’t exchange that property into a like-kind asset, you’ll be faced with substantial capital gains. In California, that’s a rate of over 33 percent. But, with proper planning, there are ways to help manage all of this, preserving wealth for the next generation so it can continue to grow.”

Experts Weigh In



Susan recommends her clients involve their adult children in the estate planning process early on. Here are some of the key things that investors need to consider:

- Make sure your estate plan is comprehensive yet flexible, because no one can predict everything. You need to be able to make adjustments if and when circumstances or goals change. Focus on building relationships with fiduciaries and advisors you trust and who will be around long-term to help both you and your heirs. Being able to pass along those relationships, alongside your assets, will help ensure your family's financial security and provide peace of mind after you are gone.
- Keep in mind that the tax rules that apply to real estate can vary significantly from state to state, and even by locally within a state. It is critical when moving or investing in new markets that you get appropriate advice from experts in local tax codes and real estate laws to avoid costly mistakes. That is one of the benefits of investing with a sponsor like Hamilton Zanze. Families can diversify their real estate portfolio across the country without having to engage their own experts in each jurisdiction to make sure they aren't tripping over any rules.
- Consider whether or not your heirs will want to be involved in the hands-on management of your real estate portfolio or if a more passive investment experience is better suited for them. Have open conversations on an ongoing basis and let everyone be involved in the decision-making process. Be sure you understand the best real estate ownership structures for your family's particular situation, including the use of trusts, LLCs, and general or limited partnerships. Trusts and entities can facilitate co-investment going forward and can be adjusted if necessary in the event that various family members have different goals or cash flow needs.

Experts Weigh In



Ed Hanley

Attorney

Taxes are obviously a critical component of estate planning for real estate investors. So, we spoke with Ed Hanley, Managing Director and Attorney at CBIZ, one of the nation's leading accounting providers, for his insights. Ed has almost 40 years of experience in public accounting, providing tax services, business advice and strategy consulting on income and estate tax matters. In addition to his significant work in the real estate sector, his legal background gives him a unique perspective when it comes to coordinating a comprehensive planning model for his clients in the area of tax planning.

"There are a variety of ways that an investor can get into real estate, from REITs on one end to directly owning properties on the other," said Ed. "Most investment advisors will tell their clients that real estate needs to be part of their overall investment portfolio."

Oftentimes the asset has been in the family for many years, but the owners are getting ready to retire and don't want to deal with it anymore and their kids aren't interested.

For more than 15 years, Ed has referred his clients to Hamilton Zanze for multifamily real estate investments that can help them achieve their goals.

Some investors are simply looking for a provider of real estate as part of their balanced portfolio of investments. They are largely interested in cashing checks from their income properties. They want to have people they can talk to about their investments, but they don't want the calls at 2 o'clock in the morning when the plumbing backs up. They are looking for a turnkey investment option that can provide consistent cash flow and tax benefits, without all the work.

Others are looking to divest of a substantially appreciated parcel of real estate. Oftentimes the asset has been in the family for many years, but the owners are getting ready to retire and don't want to deal with it anymore and their kids aren't interested.

“There are lots of reasons why my clients decide to invest in multifamily real estate with Hamilton Zanze, whether it’s for taxes, cash flow or looking for a certain rate of return... [the] team has proven to be wonderful custodians of my clients’ best interests.”

In the case of entrepreneurial investors, they understand real estate and have a passion for it. They built up their portfolio themselves over the years and know how to manage it. But they recognize that it is not necessarily something that can be easily passed along to family members who don’t share their appetite or talent for the business.

By utilizing a 1031 exchange through Hamilton Zanze, these investors can roll the proceeds from the sale of their parcel into another investment property, essentially trading that asset into something that works better for them while also deferring the capital gains tax hit.

“There are lots of reasons why my clients decide to invest in multifamily real estate with Hamilton Zanze, whether it’s for taxes, cash flow or looking for a certain rate of return,” said Ed. “Either way, the Hamilton Zanze team has proven to be wonderful custodians of my clients’ best interests. Investment decisions are not part of an accountant’s purview. My role is to be a trusted advisor for my clients, and that’s why I refer to them to Hamilton Zanze to assist with their real estate buy/sell/hold asset decisions. They tell me they feel well taken care of, even in down markets.”

Ed explains that 1031 exchanges represent a very large portion of his practice. “It’s a fairly complex area of tax law, and there are a lot of nuances. We do somewhere between 25 and 50 exchanges per month for our clients, but it’s not something the average investor can navigate easily on their own. I can offer you a 250-page book to explain the 1031 exchange process, but most people are not interested in that. Instead they prefer to turn to a sponsor like Hamilton Zanze whose experts can choose the real estate for them, handle all the financing, fill vacancies, deal with tenants, and actively manage the properties to get the best returns.”

This streamlined process is especially valuable when considering how real estate investments will be handled as part of an estate. “Your kids can still inherit your real estate assets, but they are not going to have to worry about the day-to-day management. By including these investments in your estate plan, you can be sure your loved ones will be in a strong financial position after you are gone, with tax-sheltered cash flow and diversified assets that will continue to help them build long-term wealth.”

Experts Weigh In



“When the property owner dies, there is a step up in basis, that can then be depreciated, providing tax shelter to the cash flow from the property.”

Ed explained there are advantages to passing down assets like multifamily real estate.

“When the property owner dies, there is a step up in basis, that can then be depreciated, providing tax shelter to the cash flow from the property. This is not something you are able to get with an investment like stock. For example, let’s say you purchase a parcel for \$1 million. When you die, it’s worth \$5 million. Your family inherits it and gets a basis of \$5 million. With multifamily housing, you get to depreciate that incremental \$4 million in value over a period of time. If your heirs decide to stay in that real estate, they can get tax-sheltered cash flow for up to 20 years following your death, which can provide financial security and a standard of living for them going forward. Our clients have developed intergenerational wealth in real estate, with multifamily housing representing a large portion of that. That’s why I also invest in multifamily real estate myself.”

Like Susan, Ed recommends that estate plans allow for flexibility with real estate investments, since not all family members will have the same goals, skill sets or appetite for risk. “Make sure you are not handing a problem down to your children. You don’t want a situation where there is a family fight over a jointly-owned asset. It can end up in lawsuits and ruin families. As we get older, it is especially important to work closely with your tax advisor, estate planning attorney and real estate investment partner to develop a plan that takes all of these things into consideration.”

Choosing an Investment Sponsor



When investing in multifamily real estate, there are a number of benefits to working with an experienced sponsor like Hamilton Zanze, which has a national footprint and ability to scale. Investors are able to access institutional-quality assets in growth markets, investment portfolio diversification, and tax-efficient investments that balance distributable income and appreciation.

“We invest in every offering ourselves, which aligns our interests with our investors’ and creates shared success.”

“None of us will live forever, and ultimately the wealth we build up in our lifetime will be passed on to our heirs. Our investors tend to stay with us for a very long time, thinking of their investments not just for themselves but for the next generation. We have partnerships that have been together for more than 10 or even 20 years,” said Mark Hamilton, Hamilton Zanze Founding Principal. “When you are making plans for handing these types of positions down, it is a much friendlier construct to have everything consolidated into a single statement, rather than having a flood of individual distributions or tax materials for family members to manage. This turnkey approach makes everything much simpler, especially for people who are coming into their parents’ holdings and may not really know much about it.”

Many Hamilton Zanze investors have the mindset of multi-generational investing. They are not just investing for today. They are investing for their families in the future.

Choosing an Investment Sponsor

“It is really important to have conversations about estate planning and family investments during life, so that your children fully understand what you are invested in and why.”

“The biggest mistake I see among investors is not passing on knowledge to the next generation,” said Ashlee Cabeal, Hamilton Zanze Partner and Chief Financial Officer. “It is really important to have conversations about estate planning and family investments during life, so that your children fully understand what you are invested in and why. You should surround yourself with a really strong tax advisor and estate planning attorney. Make sure your plan is fluid and revisit it frequently to adjust for new life events or changes in estate or gifting laws. It’s never too early to start planning and involving your family in these conversations. Better yet, have them invest alongside you so they experience first-hand the benefits of investing in real estate.”

Conclusion

Investing in multifamily real estate offers a myriad of compelling benefits that can provide revenue now and foster long-term wealth for you and your loved ones. The potential for consistent cash flow, property appreciation, and diversification make it an attractive option for seasoned investors and newcomers alike. However, do not overlook the importance of proper estate planning to ensure a smooth transfer of multifamily properties to your beneficiaries. By combining the power of strategic real estate investment with a well-thought-out estate plan, you can create a legacy of financial security and build a robust financial foundation for generations to come.

Hamilton Zanze is here to help, with a proven track record of success that speaks for itself. We invest alongside you in every property, so you can have the confidence of knowing that your succession plan is also our succession plan. Contact us today to explore how Hamilton Zanze can help you unlock the benefits of multifamily real estate and build a legacy with investments that deliver results and stand the test of time.

Call or email us to start the conversation today at (415) 561-6800 or investorrelations@hamiltonzanze.com.

[Hamiltonzanze.com](https://hamiltonzanze.com)

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