Turning Business Profits into Tax-Advantaged Real Asset Investments

A practical overview for business owners evaluating passive real estate partnerships

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For discussion purposes only

Important disclaimer: This document is educational and does not constitute tax, legal, or investment advice. Tax outcomes depend on your facts, entity structure, and applicable law. You should consult your CPA and tax counsel before making any investment decision.

Who We Are

Sea to Summit Investments is a real asset investment firm specializing in value-add multifamily and selective development opportunities. The firm prioritizes downside protection, alignment of incentives, and transparency throughout both the underwriting process and ongoing communications. With more than fifteen years of experience in property acquisition, ownership, and the management of both long-term and short-term rentals, Sea to Summit Investments has established a robust track record in real estate investment. This expertise is further enhanced through collaboration with Cavanaugh Investments, whose principal possesses over twenty years of industry experience and has overseen nearly $2 billion in multifamily acquisitions to date.

Executive Summary

Many business owners generate substantial taxable income from operating businesses that are unrelated to real estate. A passive allocation to professionally managed real estate can potentially provide three things at once: (1) tax-efficient outcomes through depreciation and cost recovery, (2) real-asset-backed exposure with multiple levers to create value, and (3) the potential for long-term cash flow and appreciation.

This overview explains how value-add multifamily and ground-up development partnerships can work, why depreciation matters, what is realistic (and what is not), and the questions we encourage you to ask in diligence.

Quick takeaways

- Tax benefits are typically driven by depreciation, cost segregation, and timing.
- Real estate can be attractive because capital is tied to a tangible asset with contractual cash flow.
- Value-add adds upside through operations; development adds upside through execution and market timing.
- Not all investors can use real estate losses against active business income - your CPA should confirm.

We focus on transparency: clear assumptions, conservative underwriting, and alignment of incentives.

Who This Is For

- Owners of cash-flowing businesses seeking diversification beyond public markets
- Investors who want passive exposure to real assets with professional management
- High earners who care about after-tax outcomes, not just headline returns
- Those willing to commit capital for multiple years in exchange for potential tax efficiency and long-term value creation

Two Partnership Strategies We Use

1) Value-Add Multifamily (Operational Upside)

Acquire an existing property with clear operational or physical inefficiencies (renovations, expense reductions, better leasing, management improvements). Value is created by increasing Net Operating Income (NOI), which increases valuation.

- Potential drivers: renovations, tenant quality improvements, utility bill-backs, expense controls, revenue management
- Why it can be durable: existing cash flow + tangible collateral + multiple exit paths
- Typical hold: 3-7 years (varies by asset to maximize IRR)

2) Ground-Up Development (Build-to-Create Value)

Develop new housing where supply is constrained or demand is durable. Returns can come from creating a new asset at a basis below stabilized value, then refinancing or selling after lease-up.

- Potential drivers: entitlement + design, construction execution, lease-up, stabilization, permanent financing
- Why it can be compelling: larger value creation potential, modern product, and improved long-term durability
- Key tradeoff: higher execution risk and longer time to cash flow

How the Tax Benefits Typically Work

Real estate can produce tax advantages primarily because depreciation is a non-cash expense that may reduce taxable income during the hold period. In many cases, a cost segregation study reclassifies certain components of a property into shorter depreciation lives, accelerating deductions into earlier years.

Simplified explanation

- Depreciation is a tax deduction - not cash - that can shelter some of the income the property generates.
- Cost segregation can accelerate a portion of depreciation into the early years.
- At sale, some of these deductions may be 'recaptured' - your CPA should model after-tax outcomes, not just year-one savings.

Bonus Depreciation: Where It Stands (High-Level)

Bonus depreciation rules have changed recently. As of 2025, legislation restored 100% bonus depreciation for certain qualified property acquired and placed in service after January 19, 2025, with specific transition elections for certain situations. These rules are technical - your CPA should confirm eligibility for your specific investment and entity structure.

Critical Note: Passive Loss Rules

Most real estate syndications generate 'passive' income or loss for investors. Under IRS passive activity rules, passive losses generally offset passive income, not wages or active business income. Some investors may qualify for exceptions (for example, certain real estate professional or material participation circumstances), but this is highly fact-specific. We encourage every investor to review this with their CPA before relying on projected tax sheltering.

What we do and do not promise

- We can explain how a deal is structured and what deductions have looked like historically in similar projects.
- We cannot guarantee your ability to use losses against your active business income.
- We underwrite deals to make sense on fundamentals, not only on tax benefits.

Beyond Taxes: Why Business Owners Allocate to Real Assets

1) Contractual cash flow and inflation resilience

Apartments are demand-driven, necessity-based housing. Leases reset regularly, which can help income keep pace with inflation over time.

- Quarterly distributions (when stabilized)
- Ability to raise NOI through operations, not just market appreciation

2) Real collateral and downside characteristics

Unlike many paper assets, real estate is secured by a tangible property. That does not eliminate risk, but it changes the nature of downside scenarios.

- Asset backing and replacement cost support
- Multiple exit options: refinance, sale, or extended hold

3) Diversification away from operating business risk

Many owners already have concentrated exposure to one industry. Real assets can diversify cash flows and reduce dependence on a single economic driver.

- Different demand cycle than your core business
- Potential for smoother income profile over time

How We Typically Partner

Sea to Summit Investments sources and underwrites opportunities with an emphasis on disciplined downside analysis, operator alignment, and clarity around the tax and cash flow profile. Most investors participate as passive limited partners alongside an experienced operating team.

Our underwriting focus

- Downside first: what breaks if rent growth slows, expenses rise, or cap rates expand?
- Alignment: meaningful sponsor co-investment and clear fee disclosures.
- Execution: a realistic business plan with adequate reserves.
- Transparency: frequent reporting, clean assumptions, and investor-ready communication.

Due Diligence Checklist

- Business plan: scope, timeline, contingency buffers, and capex reserve
- Fees: acquisition, asset management, construction management, and disposition fees
- Debt: terms, maturity, rate caps, and refinance assumptions
- Tax: projected depreciation, cost segregation approach, and K-1 timing
- Risk: sensitivity tables (exit cap rate, rent growth, vacancy, costs)
- Governance: reporting cadence, major decision rights, and conflict policy

Next Steps

If you would like, we can schedule a short call to understand your objectives, your liquidity and tax considerations, and what 'success' looks like for you. From there, we can share opportunities that fit your profile and walk through the underwriting, business plan, and historical tax characteristics.

References (for further reading)

- IRS Instructions for Form 4562 (Depreciation and Amortization) - special depreciation allowance updates
- Grant Thornton summary on OBBBA and bonus depreciation changes
- The Tax Adviser articles on bonus depreciation planning and post-OBBBA guidance