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How Family Office Platforms Can Help RIAs Elevate 1031 Exchange Advisory: A Case Study

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Yield, capital preservation, and tax deferral in private real estate are table stakes for sophisticated, ultra-high net worth clients. RIAs can differentiate their practices by offering advanced planning services including generational wealth preservation, risk-reward optimization, and long-term legacy planning.

To that end, growth-minded RIAs are strategically partnering with – or allocating to – select sophisticated family office investment platforms to provide clients with more options for achieving these goals.

Family office investment platforms can add value to RIAs' existing client relationships by considering an enhancement to the commonly-used DST – or Delaware Statutory Trust – vehicle. RIAs often advise clients to use DSTs to defer capital gains taxes.

The case study below details a bespoke 1031 Exchange transaction Kingbird executed on behalf of our founding family office to demonstrate how high-performing, actively managed approaches can complement other tax-advantaged strategies and yield superior after-tax returns.

Executing a Strategic 1031 Exchange for Ongoing Value Creation

This case study centers on a value-add multifamily asset located in a Midwest growth market where the family purchased and originally intended to be a long-term cash-flowing, generational hold. Despite being successfully repositioned with meaningful operational enhancements that significantly enhanced its value, it was projected to generate less than 1% cash-on-cash yield after its initial refinance.

Legacy Purchase Summary Performance

- **Purchase Price (2015):** $22M
- **Sale Price (2019):** $32.8M (+43%)
- **Equity Multiple:** 3.08x (net)
- **IRR:** 34.7% (net)

Based on a detailed hold/sell analysis grounded in research and fundamentals, the decision was made to sell the asset. The proceeds would be redeployed in other multifamily assets with more compelling risk-adjusted return profiles via a tax-advantaged 1031 Exchange to lock in the meaningful gain but maintain full tax deferral and unlock additional long-term value.

Kingbird's team advised on, sourced, underwrote, structured, and closed a multi-property transaction to advance these goals on behalf of the family office.

Portfolio Redeployment to Create Multiple Layers of Value Creation

The proceeds of the sale were redeployed into three assets located in another Midwest growth market with a more resilient growth profile. In our view, the market maintained a similar geographic diversification footprint in a superior location that was more durable, diverse, and, at the time, "pre-institutional." This meant we were able to acquire an institutional grade asset without the institutional competition and price tag at the time but have clearer optionality in an exit path, and higher potential upside.

1031 Exchange Summary Performance

- **Tax savings from 1031 Exchange:** $2.8M
- **Blended projected IRR across new assets:** 15%–20%
- **Significant increase in average going-in cash yield:** from <1% to 8%
- Tax savings were reinvested, generating an **additional ~$224K per year** in income.

Repositioning the investment allocation into a higher growth but still well priced market at the time realized additional value just three years later as the

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primary exchange asset was subsequently sold to an institutional LP (as the market became an institutional one), realizing a 58.2% net IRR and 1.59x net Equity Multiple.

Due to our relationship with the operator, our investors retain a Co-GP position in the property, preserving long-term exposure to the growth market with minimal equity at risk but generating a 4.5% average cash on cash. Investors will also capture additional returns on any subsequent sale of the investment.

Bespoke Tax-Advantaged Transaction vs. DST: Key Differentiators

Below, we've outlined how we were able to maximize asset performance by offering a bespoke 1031 exchange compared to the traditional DST structure.

Feature	Bespoke 1031 Exchange	DST Structure
Customization	Fully tailored to investor needs	One-size-fits-all
Sponsor Alignment	GP co-investment and active asset management	Often passive third-party
Operational Control	Direct oversight and active value creation	Limited control
Liquidity Management	Discretion on timing and terms of exit	Generally illiquid until DST dissolves
Tax Efficiency	Full tax deferral + tactical reinvestment of savings	Tax deferral only

For RIAs managing clients facing significant capital gains from real estate or business asset sales, our team's expertise with complex, nuanced family office needs, along with our in-place network in the middle and institutional real estate market, can provide opportunities, including:

- **Enhanced Income:** Increased cash yield from higher-quality, actively managed multifamily assets that still sit at a "matchable" transaction size/value for your probable client assets.
- **Access and Risk Management:** Immediate access to a large subset of off-market, institutional-grade properties and diligenced operators in high growth markets.
- **Co-GP Partnership:** Opportunity to participate at the Co-GP level alongside Kingbird to eliminate management fees and capture an additional 200 – 400bps of return from the property over a typical LP position.
- **Tax Optimization:** Comprehensive 1031 Exchange strategy and execution, including reinvestment of deferred taxes for compounding benefits.
- **Enhanced Optionality:** Capture the benefits of a long-term, tax advantaged hold perspective to preserve wealth while retaining flexibility to generate private equity-like upside when the market deems appropriate.
- **Custom Structuring:** Tailored investment size, geography, and risk profile—unavailable in pooled DSTs.

In our view, this case study reflects just one example of how bespoke, advisor-led 1031 Exchange strategies can complement – or, depending on the scenario – meaningfully outperform commoditized DST investments, both in terms of economics and client alignment. For RIAs seeking to elevate their advisory offering, this model can be expanded further to provide an open architecture framework with an established, high touch execution team to serve as a powerful tool for managing transitions of generational wealth, maximizing income, and optimizing tax outcomes.

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