



Turning Buildings into Cash Flow

Your 2026 Cost Segregation Guide
for U.S. Commercial Real Estate



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INTRODUCTION



Real estate is often the largest line item on a balance sheet, yet many property owners remain unaware that their buildings are a significant, untapped source of cash flow. Standard tax treatments often default to a 39-year depreciation schedule, leaving substantial liquidity locked in the core structure of a facility.

This guide is designed to help property owners, investors, and CFOs navigate the complexities of cost segregation and the recent legislative shifts under the OBBB Act.

Whether you are acquiring new assets, finishing a construction project or looking to optimize an existing portfolio, the following pages provide the technical framework needed to turn your physical infrastructure into active capital.

As tax law evolves and capital efficiency becomes critical, Cost Segregation remains one of the most powerful tools available to building owners. It accelerates depreciation, improves after-tax cash flow, and consistently delivers outsized ROI by unlocking hidden value within existing assets

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*Director of
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MOST COMMERCIAL PROPERTIES ARE UNDER-DEPRECIATING SLOWLY

KEY TAKEAWAYS:

- ✓ **Standard 39-year depreciation** often leaves significant cash flow untapped.
- ✓ Cost segregation can accelerate 15–50% of a building's basis into **5, 7, or 15-year property**.
- ✓ The OBBB Act restored immediate expensing provisions beginning in 2025.
- ✓ Strategic studies can generate substantial first-year deductions and long-term NPV gains.
- ✓ Proper engineering and audit-ready documentation are critical.



WHY NOW?

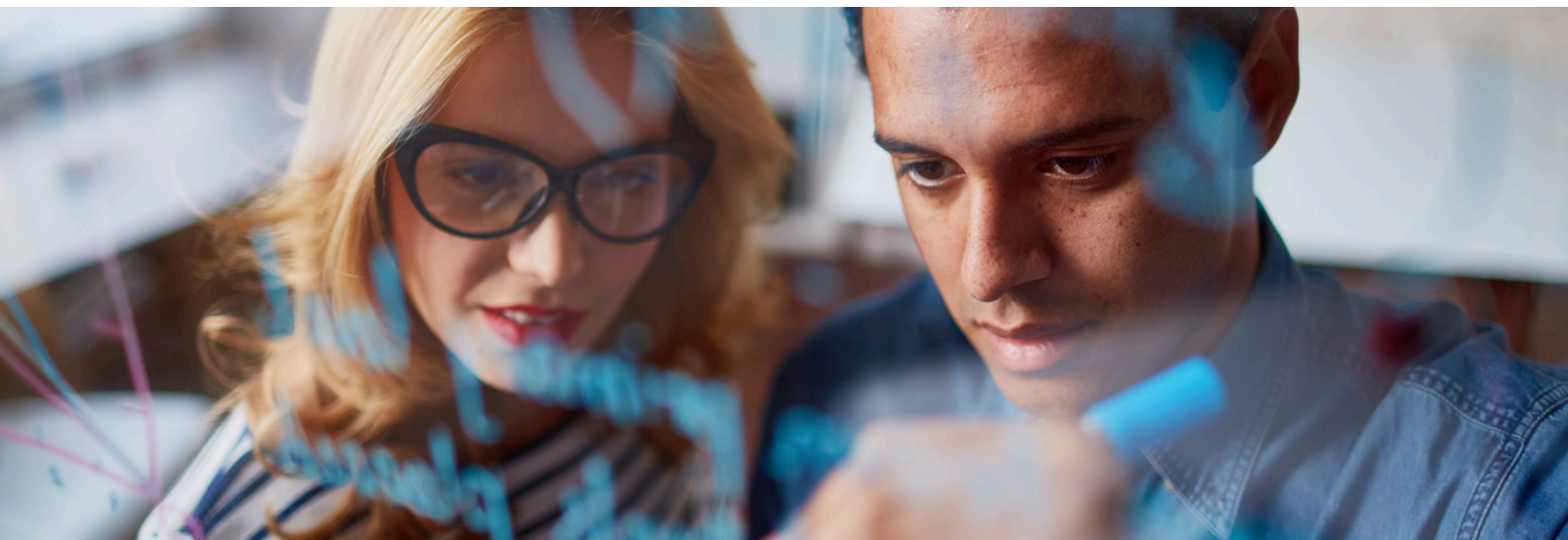
Liquidity Is Expensive.

Your Building May Be Your Lowest-Cost Source of Capital.

In a high-interest rate environment, capital efficiency is no longer optional. Many property owners continue depreciating as if tax rules had not evolved.

The OBBB Act of 2025 restored immediate expensing provisions, creating a renewed opportunity to accelerate deductions and improve after-tax cash flow.

For organizations managing large real estate footprints, cost segregation is not a tax tactic. It is a capital strategy.



RECLASSIFYING ASSETS TO ACCELERATE DEPRECIATION

Under standard tax treatment, non-residential real property is depreciated over 39 years.

A cost segregation study identifies and reclassifies specific building components into shorter recovery periods under MACRS.

TYPICAL RECLASSIFICATIONS:

5-Year Property	7-Year Property	15-Year Property	39-Year Property
Specialty electrical systems, dedicated equipment connections, certain flooring.	Equipment-related assets and removable systems.	Land improvements, paving, landscaping, certain Qualified Improvement Property.	Core structural shell.

This reclassification accelerates deductions and improves early-year cash flow.

See the following page for a strategic breakdown of how these asset classes are identified within a standard facility profile.



THE ASSET RECLASSIFICATION FRAMEWORK

39-Year Property
Core Structural Shell

15-Year Property
Land Improvements &
Site Infrastructure

7-Year Property
Machinery & Specialized
Manufacturing Systems

5-Year Property
Specialty Electrical &
Dedicated Plumbing

By looking beyond the structural shell, **Cost Segregation** identifies high-value components hidden within your facility. Under the **OBBB Act of 2025**, reclassifying these elements into shorter recovery periods shifts future tax benefits into the present, providing immediate capital to fuel your next growth cycle

FROM PASSIVE DEPRECIATION TO ACTIVE CASH FLOW ACCELERATION

Accelerating depreciation impacts:

- // Immediate tax liability
- // After-tax cash flow
- // Internal Rate of Return
- // Debt coverage ratios
- // Exit strategy optimization

For capital-intensive businesses, front-loaded deductions can materially improve financial performance during acquisition, expansion, or refinancing cycles.

WHAT CHANGED UNDER THE OBBB ACT (2025)

Beginning **January 20, 2025**:

- // Immediate expensing provisions were restored for qualifying components.
- // Small businesses (average receipts under \$30M) may amend 2022–2024 returns until July 6, 2026.
- // Section 168(k) bonus depreciation continues to apply to property with recovery periods of 20 years or less.

This shift significantly enhances the value of properly structured cost segregation studies.



CASE STUDY

Heavy Manufacturing Facility

Unlocking \$40M in Liquidity through Specialized Asset Reclassification

FACILITY OVERVIEW

- ✓ **Building Type:** Heavy Manufacturing
- ✓ **Filing Year:** 2023
- ✓ **Building Size:** 524,298 SF
- ✓ **Total Depreciable Basis:** \$62,500,000
- ✓ **Placed in Service:** 2018
- ✓ **Condition:** Good
- ✓ **Property Type:** Commercial
- ✓ **Tax Context:** 30% federal tax rate with an 8% ROI factor.

RECLASSIFICATION RESULTS

- ✓ **5-Year Property:** \$20,205,281 at 32%
- ✓ **7-Year Property:** \$6,735,094 at 11%
- ✓ **15-Year Property:** \$5,156,250 at 8%
- ✓ **39-Year Property:** \$30,403,375 at 49%

Total: \$62,500,000 at 100%

Financial Impact:

Total First-Year Deduction: \$40,035,373

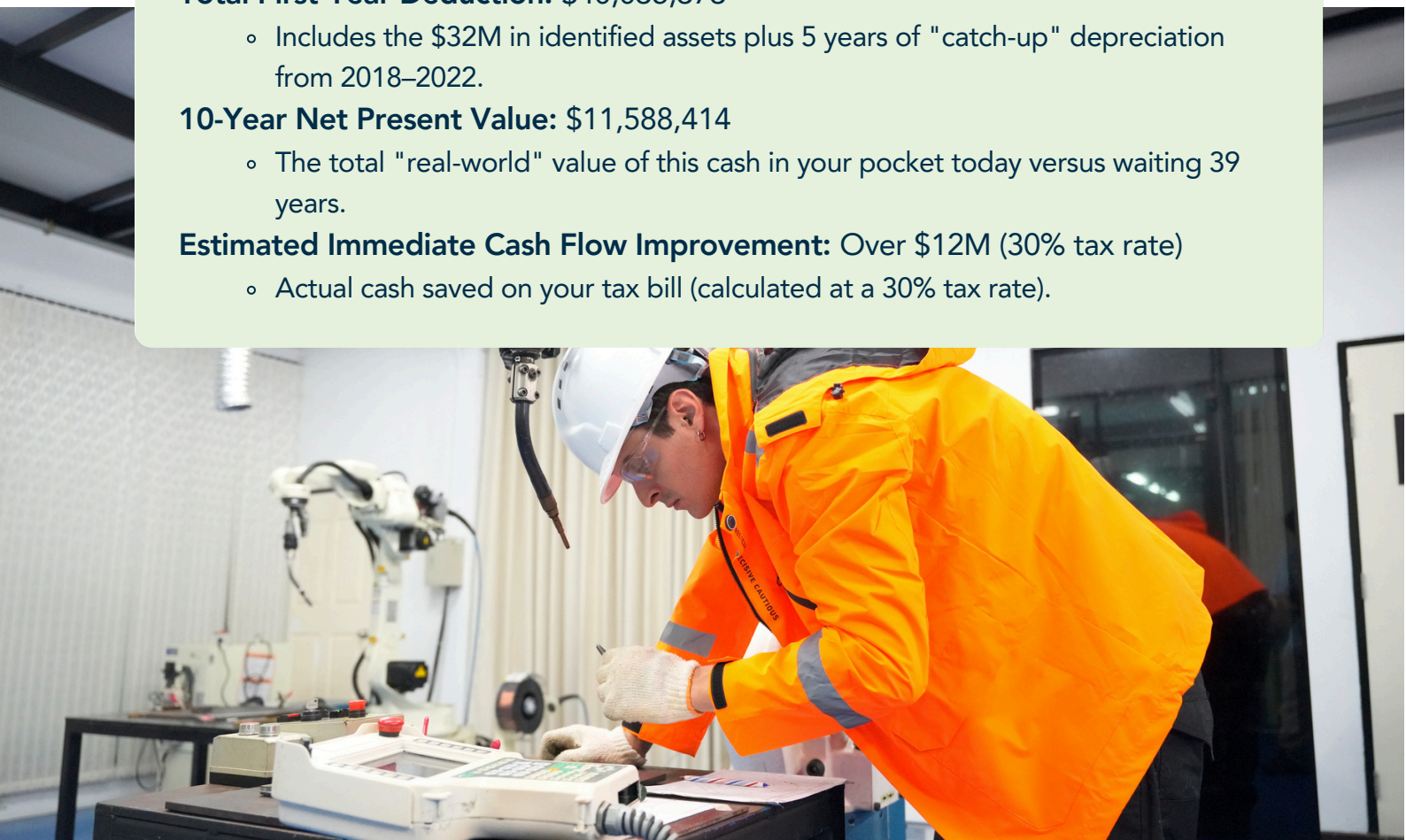
- Includes the \$32M in identified assets plus 5 years of "catch-up" depreciation from 2018–2022.

10-Year Net Present Value: \$11,588,414

- The total "real-world" value of this cash in your pocket today versus waiting 39 years.

Estimated Immediate Cash Flow Improvement: Over \$12M (30% tax rate)

- Actual cash saved on your tax bill (calculated at a 30% tax rate).



STRATEGIC DISCIPLINE MATTERS

Cost segregation may not be optimal if:

- ✓ The property is held at a loss position
- ✓ Ownership structure limits depreciation advantages
- ✓ Holding period is extremely short

A feasibility review ensures alignment with broader tax strategy.



AUDIT DEFENSIBILITY

Improperly executed studies increase audit risk.

An IRS-compliant study should include:

- ✓ **Engineering-Based Analysis:**
On-site review and technical asset identification.
- ✓ **Detailed Cost Estimation:**
Allocation supported by substantiated methodologies.
- ✓ **Legal Asset Classification:**
Alignment with Rev. Proc. 87-56 and relevant guidance.
- ✓ **Comprehensive Documentation:**
Audit-ready reporting and defensible position.

ARE YOU LEAVING CASH IN THE WALLS?

Use this checklist to determine if a Cost Segregation Study is warranted for your portfolio

☐

TIMELINE

Was the property acquired, constructed, or renovated after 2017?

☐

INVESTMENT BASIS

Did the capital improvements or acquisition cost exceed \$1M?

☐

TAX LIABILITY

Does your current federal tax rate exceed 25%?

☐

STRATEGIC HORIZON

Are you planning a refinancing, restructuring, or sale within the next 3–5 years?

☐

INDUSTRY FIT

Does the property operate in manufacturing, healthcare, hospitality, retail, or logistics?



If you checked two or more boxes, a formal feasibility review is highly recommended to quantify your potential first-year tax savings.



DETERMINE YOUR PROPERTY'S ACCELERATION POTENTIAL

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Cost segregation study simulation

Please provide information about your property to get started.

Property Name		Building type	
		Apartments	
Property Type		Purchase Price less Land or Total Construction Cost	
--Please Select--		\$	
Study Scope	Condition	Est. Tax rate	
--Please Select--	--Please Select--	30 %	
Filing year	Date placed in service	Return on investment factor	
2025	dd/mm/yyyy	8 %	

Next

BOOK A MEETING NOW

Estimate your potential ↗

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READY TO ACCELERATE YOUR DEPRECIATION?

Contact our cost segregation experts to uncover missed tax savings on your commercial property!

Talk to an expert



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