

Strategies for Increasing Revenue: Cost Segregation Studies

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Anchin had the recent pleasure of speaking on a panel at IMN’s 3rd Annual Middle-Market Multifamily Forum in Coral Gables, Florida last month.

While the panelists touched on various strategies to increase revenue or decrease business expenses, overall, the discussion emphasized the significance of innovative approaches to maximizing profitability and growth in the real estate industry. By embracing novel solutions, owners and operators can stay ahead of the curve and increase savings.

Maximizing savings isn’t just about increasing revenue; it’s about smart financial strategies that optimize net income. One strategy that is rapidly gaining traction in the real estate industry is completing cost segregation studies.

“So, what is cost segregation?” asked one attendee. Cost segregation is ultimately the practice of accelerating depreciation from a “real property” life of 39 or 27.5 years to 5-, 7-, or 15-year lives using an engineering-based study. When a property is purchased or newly constructed, the asset is assumed to be comprised of entirely real property carrying a longer life and depreciated over a straight-line

method. Through a cost segregation study, a portion of this basis can be shifted to a different asset class bearing a shortened depreciable life, resulting in an immediate increase in cash flow. At its core, it's a strategic tax planning tool that allows property owners to frontload depreciation deductions, thereby reducing taxable income and potentially deferring tax payments. Rather than depreciating the entire property over several decades, cost segregation identifies specific components that can be depreciated sooner.

Additionally, these shortened lives are eligible for bonus depreciation in newly constructed and acquired properties, allowing a taxpayer to further increase a study's benefit by effectively expensing a portion or the entirety of the basis upfront. We emphasized the importance of this technique and revealed how it can be a game-changer for investors. Further, he explained that by frontloading depreciation, property owners can realize significant tax savings in the early years of ownership. For example, if one owns a \$10 million property, a well-executed cost segregation study might identify 20-30% of that value that can be depreciated in the first year alone. This means substantial tax deductions that can offset taxable income and improve cash flow.

“But how does this translate to increased bottom-line value?” While cost segregation may not directly generate revenue like other strategies, it effectively reduces tax liabilities, which can free up capital for further investment or operational expenses. In essence, it's about optimizing financial efficiency, allowing investors to retain more of their earnings and reinvest them strategically. In addition to benefiting from the depreciation adjustments, many studies also include fixed asset management deliverables to assist with future partial dispositions.

In a landscape where every dollar counts, cost segregation emerges as a powerful tool for real estate investors looking to maximize returns and mitigate tax burdens. By leveraging expert insights from professionals, property owners can navigate complex tax regulations with confidence, ultimately unlocking the full potential of their investments.

To learn more about how cost segregation studies can assist you or to listen to the entire panel, please reach out to your Anchin Relationship Partner.