

# SOURCE ADVISORS

## CAN YOU BENEFIT FROM A COST SEGREGATION STUDY?

Cost segregation accelerates the depreciation of commercial buildings. For companies that own commercial real estate, multi-family housing or tenant improvements, cost segregation is one of the most significant opportunities available to reduce tax liability and increase short-term cash flow.

### WHAT IS A COST SEGREGATION STUDY?

Cost segregation studies free up capital by accelerating the depreciation of short-life assets associated with commercial real estate. They may be thought of as an interest-free loan in that they front-load the depreciation expense deduction a property would otherwise receive over 27.5 or 39 years.

#### Benefits are typically measured in terms of:

- Immediate cash savings or increased cash flow during early years of ownership; or,
- Present value over ownership term

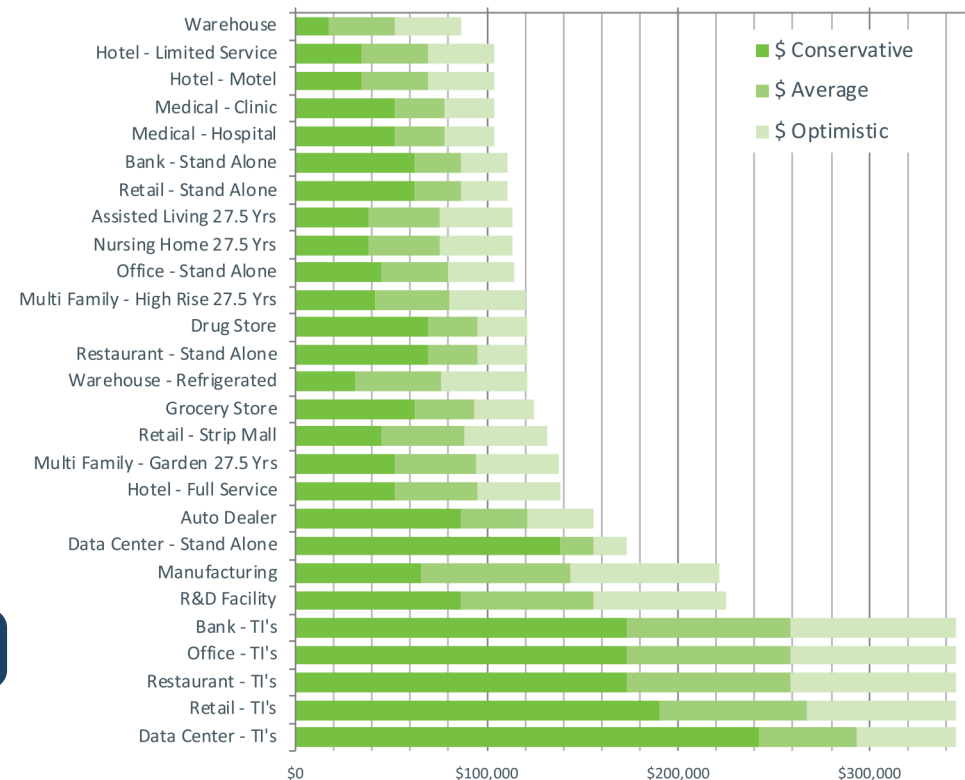
#### Additionally, to increase benefits, cost segregation studies may be coordinated with other services such as:

- Repairs and dispositions under the Tangible Property Regs.; as well as
- §179, §179D, and §45L studies

### WHAT MAKES A BUILDING OR IMPROVEMENTS ELIGIBLE?

- Placed-in-service since 1987
- Currently depreciating over 27.5 or 39 years
- \$500,000+ in capitalized costs
- Have been acquired, constructed, expanded, or remodeled
- The property owner must be a tax-paying entity
- Ideal building types include apartment complexes, auto dealerships, banks, hotels, manufacturers, nursing homes, office buildings, restaurants, shopping centers, warehouses, etc.

### Total Potential 1st Year Increased Cash Flow



#### ASSUMPTIONS:

- Tax benefit per \$1,000,000 of capitalized costs
- Interior improvements may be Qualified Improvement Property (QIP) where applicable
- Tax rate is 35% and the discount rate is 6%
- Bonus depreciation applies to tangible personal property, land improvements, and QIP

## RANGES OF ACCELERATED PROPERTY

PROPERTY TYPE	CONSERVATIVE				OPTIMISTIC			
	5 - Year	7 - Year	LIP	QIP	5 - Year	7 - Year	LIP	QIP
			15 - Year	15 - Year			15 - Year	15 - Year
Assisted Living 27.5 Yrs	8.0%	0.0%	3.0%	0.0%	18.0%	0.0%	15.0%	0.0%
Auto Dealer	10.0%	0.0%	15.0%	0.0%	20.0%	0.0%	25.0%	0.0%
Bank - Stand Alone	12.0%	0.0%	6.0%	0.0%	20.0%	0.0%	12.0%	0.0%
Bank - TI's	20.0%	0.0%	0.0%	30.0%	40.0%	0.0%	0.0%	60.0%
Data Center - Stand Alone	40.0%	0.0%	0.0%	30.0%	90.0%	0.0%	0.0%	10.0%
Data Center - TI's	40.0%	0.0%	0.0%	0.0%	50.0%	0.0%	0.0%	0.0%
Drug Store	10.0%	0.0%	10.0%	0.0%	20.0%	0.0%	15.0%	0.0%
Grocery Store	10.0%	0.0%	8.0%	0.0%	20.0%	0.0%	16.0%	0.0%
Hotel - Full Service	10.0%	0.0%	5.0%	0.0%	25.0%	0.0%	15.0%	0.0%
Hotel - Limited Service	5.0%	0.0%	5.0%	0.0%	15.0%	0.0%	15.0%	0.0%
Hotel - Motel	5.0%	0.0%	5.0%	0.0%	15.0%	0.0%	15.0%	0.0%
Manufacturing	1.0%	10.0%	8.0%	0.0%	1.0%	50.0%	13.0%	0.0%
Medical - Clinic	10.0%	0.0%	5.0%	0.0%	20.0%	0.0%	10.0%	0.0%
Medical - Hospital	10.0%	0.0%	5.0%	0.0%	20.0%	0.0%	10.0%	0.0%
Multi Family - Garden 27.5 Yrs	10.0%	0.0%	5.0%	0.0%	25.0%	0.0%	15.0%	0.0%
Multi Family - High Rise 27.5 Yrs	10.0%	0.0%	2.0%	0.0%	25.0%	0.0%	10.0%	0.0%
Nursing Home 27.5 Yrs	8.0%	0.0%	3.0%	0.0%	18.0%	0.0%	15.0%	0.0%
Office - Stand Alone	6.0%	0.0%	7.0%	0.0%	18.0%	0.0%	15.0%	0.0%
Office - TI's	20.0%	0.0%	0.0%	30.0%	50.0%	0.0%	0.0%	50.0%
R&D Facility	20.0%	0.0%	5.0%	0.0%	50.0%	0.0%	15.0%	0.0%
Restaurant - Stand Alone	12.0%	0.0%	8.0%	0.0%	25.0%	0.0%	10.0%	0.0%
Restaurant - TI's	20.0%	0.0%	0.0%	30.0%	50.0%	0.0%	0.0%	50.0%
Retail - Stand Alone	10.0%	0.0%	8.0%	0.0%	20.0%	0.0%	12.0%	0.0%
Retail - Strip Mall	5.0%	0.0%	8.0%	0.0%	20.0%	0.0%	18.0%	0.0%
Retail - TI's	15.0%	0.0%	0.0%	40.0%	30.0%	0.0%	0.0%	70.0%
Warehouse	1.0%	0.0%	4.0%	0.0%	10.0%	0.0%	15.0%	0.0%
Warehouse - Refrigerated	5.0%	0.0%	4.0%	0.0%	20.0%	0.0%	15.0%	0.0%

## RANGES OF ACCELERATED DEPRECIATION

YEAR 1		YEAR 1-5	
CONSERVATIVE	OPTIMISTIC	CONSERVATIVE	OPTIMISTIC
\$180,000	\$324,001	\$92,002	\$276,005
\$246,795	\$444,231	\$221,155	\$398,079
\$177,692	\$315,898	\$159,232	\$283,078
\$493,590	\$987,180	\$442,310	\$884,620
\$394,872	\$493,590	\$353,848	\$442,310
\$691,026	\$987,180	\$619,234	\$884,620
\$197,436	\$345,513	\$176,924	\$309,617
\$177,692	\$355,385	\$159,232	\$318,463
\$148,077	\$394,872	\$132,693	\$353,848
\$98,718	\$296,154	\$88,462	\$265,386
\$98,718	\$296,154	\$88,462	\$265,386
\$187,564	\$631,795	\$168,078	\$566,157
\$148,077	\$296,154	\$132,693	\$265,386
\$148,077	\$296,154	\$132,693	\$265,386
\$147,273	\$392,728	\$125,457	\$334,552
\$117,818	\$343,637	\$100,366	\$292,733
\$108,000	\$324,001	\$92,002	\$276,005
\$128,333	\$325,769	\$115,001	\$291,925
\$493,590	\$987,180	\$442,310	\$884,620
\$246,795	\$641,667	\$221,155	\$575,003
\$197,436	\$345,513	\$176,924	\$309,617
\$493,590	\$987,180	\$442,310	\$884,620
\$177,692	\$315,898	\$159,232	\$283,078
\$128,333	\$375,128	\$115,001	\$336,156
\$542,949	\$987,180	\$486,541	\$884,620
\$49,359	\$246,795	\$44,231	\$221,155
\$88,846	\$345,513	\$79,616	\$309,617

### ASSUMPTIONS:

- Tax benefit t per \$1,000,000 of capitalized costs
- Interior improvements may be Qualifi ed Improvement Property (QIP) where applicable
- Tax rate is 35% and the discount rate is 6%
- Bonus depreciation applies to \$1245, QIP property, and Land Improvements
- LIP = Land improvement property
- QIP = Qualified improvement property