SPECIAL REPORT

Marcus & Millichap

2025 TAX REFORM

July 2025

Clarity on Tax Policies Reduce Uncertainty and Reinforce Appeal of Real Estate Investment

Codified tax breaks provide policy certainty. The newly passed "One Big Beautiful Bill" Act extends core elements of the 2017 Tax Cuts and Jobs Act while codifying several key tax provisions into permanent law, including 100 percent bonus depreciation, the Qualified Business Income deduction and Low-Income Housing Tax Credits. The legislation provides measured support rather than dramatic stimulus, yet reinforces real estate's tax-advantaged status by preserving established tools like 1031 exchanges and carried interest treatment. By making many provisions permanent, the legislation creates a more stable framework for long-term tax planning and investment allocations. The policy timing is particularly favorable for commercial real estate, as tax benefits can help investors manage higher borrowing costs.

Targeted reforms expand real estate investment opportunities. Several policy initiatives are expected to augment the appeal of select property markets, including enhanced manufacturing incentives for domestic production, policies that bolster capital availability for affordable housing development, permanent expansion of Opportunity Zones and higher standard deductions. The approved $5 trillion debt ceiling increase also removes near-term uncertainty, helping to stabilize financial markets and bolster investor confidence. These provisions should collectively strengthen the broader investment landscape by improving after-tax returns and expanding investment opportunities. Many of these policies target specific market segments and geographies that may have previously received limited investment attention, potentially opening new opportunities for investors seeking differentiated strategies.

Investor confidence grows as tax policy becomes more predictable. Clearer treatment of deductions and incentives should enable investors to underwrite deals with greater confidence in long-term returns, supporting allocation decisions and potentially unlocking sidelined capital. However, persistent macroeconomic challenges are likely to keep investors selective. The legislation rolls back certain clean energy initiatives, which may complicate active projects. In this environment, commercial real estate investors are expected to favor stabilized assets with durable tenancy, which helps ensure steady income amid broader headwinds. With cap rates at multi-year highs and property fundamentals improving across many markets, investors may be able to acquire assets that offer strong cash flows and long-term appreciation potential.

Key Provision Overview

- **Bonus Depreciation:** Restored to 100 percent and made permanent for assets placed in service after January 19, 2025.
- **Manufacturing Incentives:** Restores full R&D expensing, provides deductions to support facility development, and authorizes direct investment in defense-related manufacturing.
- **Low-Income Housing Tax Credits:** Permanent 12 percent increase in allocation and reduced bond test for LIHTC development.
- **Opportunity Zones:** Made permanent, with a 10 percent basis step-up after five years, effective starting in 2027.
- **State and Local Tax (SALT) Deductions:** Raised from $10,000 to $40,000, expires in 2030, phases out for incomes above $500,000.
- **Qualified Business Income (QBI):** Made permanent at 20 percent.
- **Estate and Gift Tax Exemptions:** Raised to $15 million (single) / $30 million (joint).
- **Clean Energy Rollback:** Repealed deductions for efficiency upgrades and rescinded unobligated funds.

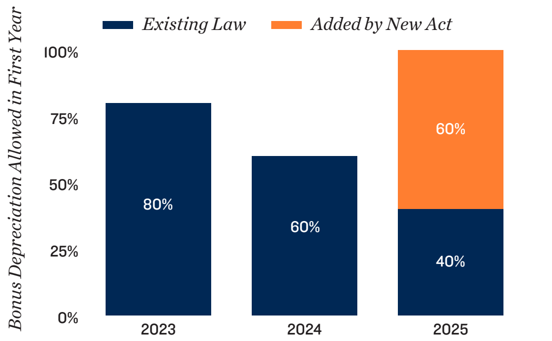
Augmented Deductions and Tax-Advantaged Zones Encourage Investment Activity

Enhanced expensing tools improve project cash flows. The reinvigoration of bonus depreciation and expansion of Section 179 represent key investment-focused provisions in the new legislation. Bonus depreciation has been restored to 100 percent and made permanent, allowing qualifying property to be fully expensed in the first year. Section 179 expensing was also increased to a $2.5 million cap, offering small to mid-sized investors increased flexibility to deduct tangible business property. These provisions improve after-tax cash flow in the early years of a project, especially for strategies involving heavy capital improvements or operational upgrades. Investors facing large upfront capital outlays, such as industrial and net-lease owners, should see enhanced returns. Value-add strategies in operationally intensive assets will also benefit from Section 179 expensing — particularly hospitality, student housing and senior living. These tools reinforce the appeal of improvement-driven real estate strategies in a high-rate environment where enhanced cash flow benefits help marginal projects achieve financial viability.

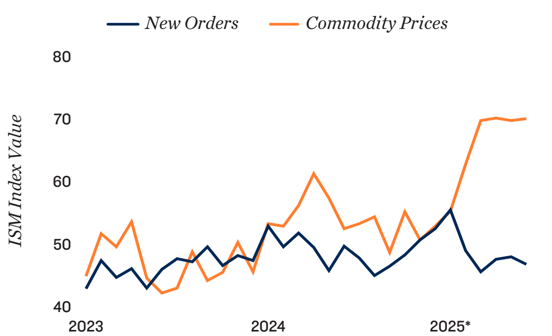
New provisions target domestic manufacturing. Several measures in the new legislation target domestic manufacturing growth. The act introduces Section 168(n), which allows manufacturers to fully expense the cost of real estate used in domestic production for projects beginning construction between 2025 and 2028. This provision encourages factory development by enabling immediate tax deductions rather than long-term depreciation schedules. The legislation also restores full and immediate expensing of domestic R&D costs under Section 174, promoting greater investment in advanced manufacturing, health care and technology sectors. Additionally, the legislation authorizes another $150 billion in defense spending for fiscal year 2025, supporting military and infrastructure priorities while providing tailwinds for defense manufacturers and their supply chains. Combined, these policies are likely to support domestic manufacturing growth and may draw more investors toward industrial assets.

Opportunity Zones become permanent with expansion. The legislation aims to broaden the geographic reach of Opportunity Zones by making the program permanent and establishing recurring designation cycles every ten years. Originally, the program allowed investors to place capital gains from other investments into a Qualified Opportunity Fund to defer and reduce taxes on those gains, with the deferral period ending in 2026. As such, the benefits of Opportunity Zones decreased each year after 2017. The new program resets the deferral timeline by introducing a standardized five-year window during which investors can defer capital gains and receive a 10 percent basis step-up after five years. Rural Opportunity Zone investments will qualify for a 30 percent step-up. These new benefits as enacted do not take effect until 2027, however, creating a timeline that may cause investors to delay Opportunity Zone investments until then and limit the immediate policy impact.

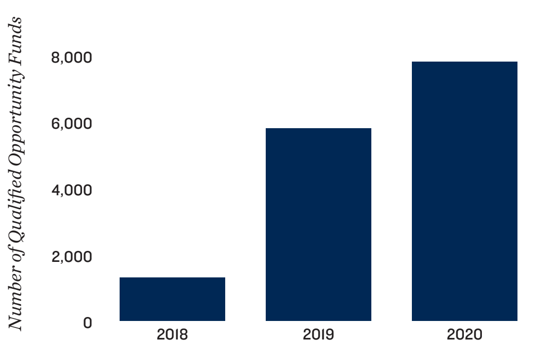
New Law Restores 100% Bonus Depreciation



New Orders Decline as Prices Climb



Number of QOFs Rise in Tax Years 2018-2020



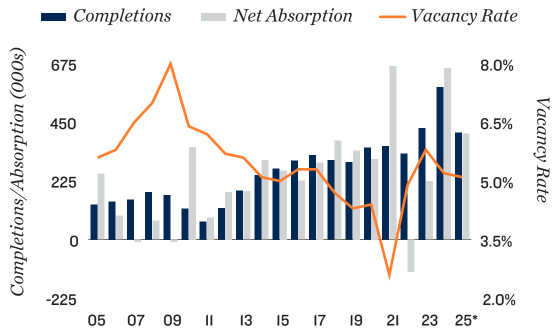
*Through June

Sources: ISM; U.S. Treasury Department

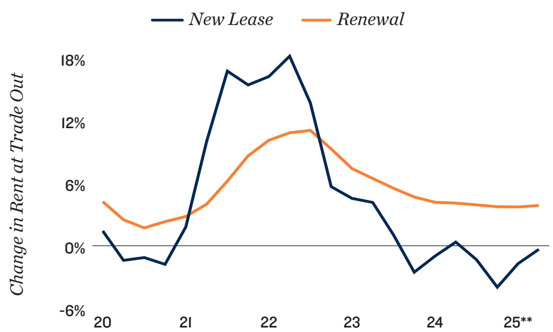
Tax Reform: 2024 Tax Law vs. 2025 One Big Beautiful Bill Act

Provision	Old Tax Law (2024)	One Big Beautiful Bill Act (Passed July 2025)
Bonus Depreciation	Phasing down to 60 percent in 2024, set to sunset fully by 2027.	Restored to 100 percent and made permanent for real property put in service after January 19, 2025.
Section 179 Expensing	$1.22 million limit.	Raised to $2.5 million.
Qualified Business Income (QBI) Deduction	Set to expire after 2025; 20 percent deduction available for pass-through income.	Made permanent at 20 percent with thresholds: $150,000 joint / $75,000 single.
Opportunity Zones	Temporary program expiring in 2026; unclear designation criteria.	Made permanent with a rolling five-year deferral period, a 10 percent basis step-up (30 percent for rural zones), and narrowed tract eligibility.
Low-Income Housing Tax Credits	12.5 percent boost expired in 2021; 50 percent bond test.	Permanent 12 percent increase in allocations; bond test lowered to 25 percent.
Manufacturing Incentives (168n)	No real estate-specific facility deduction.	New Section 168(n) allows full expensing of facility costs for domestic production.
R&D Expensing (Section 174)	R&D costs amortized over 5 years; full expensing expired in 2021.	Full and immediate expensing of domestic R&D costs restored.
Estate and Gift Tax Exemptions	$13.61 million per individual / $27.22 million per household.	Raised to $15 million per individual / $30 million per household.
Clean Energy Incentives	Section 179D deductions in place for energy-efficient upgrades; GRRP partially funded.	Section 179D repealed for projects after July 1, 2026; GRRP unobligated funds rescinded.
State and Local Tax (SALT)	$10,000 cap for state / local tax deductions.	Cap raised to $40,000; phases out at $500,000 income; sunsets in 2030.
Standard Deduction	Single: $13,850, Married: $27,700 (2024 inflation-adjusted).	Raised to $15,750 single / $31,500 married.
REIT TRS Ownership Limit	REITs could allocate up to 20 percent of assets to a Taxable REIT Subsidiary (TRS).	Limit increased to 25 percent, providing greater flexibility for REITs to hold operating businesses.
Individual income tax brackets	Temporary lower tax brackets to expire in 2025.	Lower tax brackets made permanent.
Interest Expense	Can deduct up to 30 percent of the owner's Adjusted Taxable Income (ATI).	Excludes amortization and depreciation from the ATI calculation to increase the interest deduction.
University Endowment Tax	1.4 percent excise tax on net investment income for endowments exceeding $500,000 per full-time student.	1.4 percent base excise tax retained, with new escalation tiers increasing the rate up to 21 percent for institutions with higher per-student investment income.

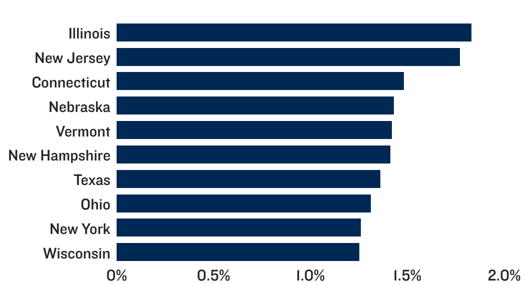
Multifamily Supply & Demand Trends



Renewals Driving Multifamily Rent Growth



Top 10 States by Property Tax Burden



Property Taxes Paid as % of Owner-Occupied Home Value, 2023

** Forecast*

*** Through 2Q*

Sources: RealPage, Inc.; Tax Foundation

Tax Relief Strengthens Housing Development and Household Budgets

Enhanced housing credits support affordable development. The act includes major enhancements to affordable housing incentives, including a permanent 12 percent increase in Low-Income Housing Tax Credit (LIHTC) allocations — previously subject to renewal every four years. The threshold for tax-exempt bond financing was reduced from 50 percent of a property's units needing to be affordable to 25 percent, enabling more developments to qualify for the credits. These changes are expected to allow more construction proposals to pencil and reinforce investor participation in LIHTC-backed projects. Developers in rural and Native communities will now qualify for a 30 percent basis boost, enhancing project economics in underserved regions. Estimates suggest the provisions could support the financing of over 500,000 new affordable units by 2029, though persistent challenges — such as rising construction costs and proposed HUD funding cuts — may dampen the effect.

Higher standard deductions boost rental retention rates. The new legislation provides modest tax relief for most households by raising the standard deduction approximately 8 percent to $15,750 for single filers and $31,500 for married couples filing jointly. In tandem, the Child Tax Credit increases from $2,000 to $2,200 per child, with the refundable portion now indexed to inflation. These enhancements should bolster household budgets, particularly for lower- and middle-income renters experiencing financial strain. The higher standard deduction also reduces the tax-driven incentive to pursue homeownership, which combined with already elevated interest rates, is expected to reinforce tenant retention for multifamily properties. This dynamic is likely to be most pronounced in higher-cost coastal markets, where less pressure to relocate could help sustain local renter demand.

SALT relief and QBI permanence encourage capital deployment. Qualified Business Income (QBI) deductions were made permanent at a 20 percent rate under the new legislation, with higher phase-in thresholds set at $75,000 for single filers and $150,000 for joint filers. Although the structure of the deduction remains unchanged, its permanence provides greater planning certainty for property owners with pass-through income and reinforces the appeal of investing through LLCs, partnerships and other pass-through entities. Additionally, the cap on state and local tax (SALT) deductions will rise from $10,000 to $40,000 beginning in 2025, with eligibility phased out above $500,000 in income. The higher cap is scheduled to expire after 2029. For individuals earning under $500,000 in high-tax jurisdictions, this adjustment should bolster after-tax returns and may free up additional capital for reinvestment through real estate vehicles.

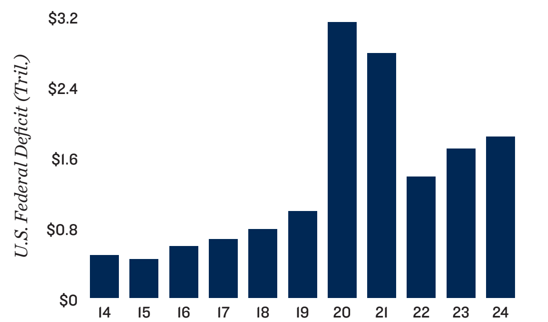
Fiscal Tradeoffs and Economic Uncertainty Fuel Selective Investment Strategies

Clean energy credits scaled back. The act includes a rollback of clean energy incentives that may hinder future investment in sustainable development and disrupt ongoing projects. Section 179D — which allowed property owners to claim deductions for energy-efficient upgrades — will be repealed for projects beginning after July 1, 2026. Furthermore, all unobligated funds in the Green and Resilient Retrofit Program have been rescinded, potentially leaving hundreds of in-progress retrofit projects without anticipated financing. These reversals could undermine clean energy integration strategies across multifamily, industrial and mixed-use developments, particularly those that relied on federal incentives to make deals financially viable.

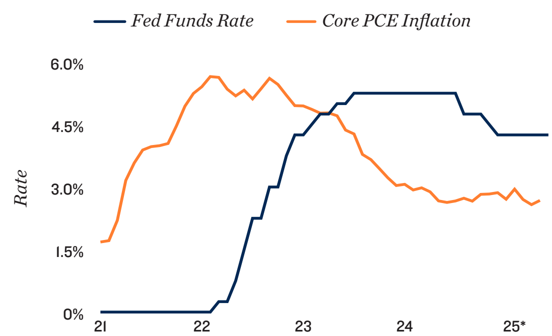
Elevated deficits raise interest rate concerns. Another potential headwind is the act's authorization of up to $5 trillion in additional federal outlays, with deficit projections ranging from $3 trillion to $4 trillion over the next decade. While this fiscal expansion supports various tax and spending provisions, it also raises concerns about crowding out private investment and putting upward pressure on interest rates. Elevated government borrowing may absorb available capital and tighten credit conditions, ultimately weighing on economic growth and dampening the legislation's effectiveness.

Cautious optimism guides investor asset selection. Evolving economic conditions will likely influence the impact of new policy provisions. Recently enacted tariffs have raised business input costs across the supply chain, pressuring corporate profitability and increasing the risk of labor market softness. Tariff-related inflation could also limit the Federal Reserve's flexibility to lower interest rates, keeping borrowing costs elevated. Against this backdrop, many investors are expected to stay defensive, prioritizing durable income streams, resilient tenant profiles and proven asset classes. Tax-advantaged structures will likely play a crucial role as investors seek to preserve cash flow stability. As construction pipelines thin across most property types, supply-demand rebalancing should provide additional tailwinds, enabling buyers to secure assets at elevated yields with strong long-term prospects.

Deficit Down From Pandemic, Trending Up



Inflation & Interest Rate Trends



* Fed Funds Rate as of June, Core PCE as of May

Sources: BEA; Federal Reserve; U.S. Office of Management & Budget

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