RESEARCH BRIEF

Marcus & Millichap

2025 TAX REFORM

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Passage of Tax Bill Reduces Uncertainty, Amplifies Benefits of Commercial Real Estate Investment

Legislative deal retains key real estate incentives. The newly passed "One Big Beautiful Bill" Act implements a mix of new tax and policy provisions, while also extending core elements of the 2017 Tax Cuts and Jobs Act, including several measures that benefit commercial real estate investors. These include the reinvigoration of bonus depreciation, permanent qualified business income deductions, and the preservation of 1031 exchanges and carried interest treatment. The legislation also authorizes a $5 trillion increase to the federal debt ceiling, alleviating concerns that the federal government would run out of funds in August. Overall, the package is expected to support long-term commercial real estate investment and development.

Bonus depreciation returns with manufacturing boost. One of the most consequential provisions for commercial real estate is the permanent reinstatement of 100 percent bonus depreciation, allowing investors to deduct the full cost of qualifying assets in the first year. The Section 179 limit was also raised to $2.5 million, with a phaseout beginning at $4 million, expanding deductions for qualified improvement property (QIP). These incentives should enhance first-year returns on commercial real estate assets, potentially creating positive leverage on deals that previously failed to pencil. Value-add strategies leveraging Section 179 expensing could also become more attractive. The act also introduces Section 168(n). Permitting manufacturers to fully expense the cost of real estate used in domestic production for projects beginning construction between 2025 and 2028, this will encourage factory development through immediate tax deductions.

Tax relief extended for investors. Several provisions from the 2017 Tax Cuts and Jobs Act were extended or enhanced in ways that support commercial real estate investors. The 20 percent deduction for qualified business income was made permanent, with higher phase-in thresholds — $150,000 for joint filers and $75,000 for single filers — preserving after-tax income for property owners with pass-through earnings. In addition, the estate and gift tax exemption was increased from $13.61 million to $15 million per individual — or $30 million per married couple — beginning in 2026, with future inflation adjustments to follow. The act also preserves tax treatments critical to the sector, including 1031 exchanges, carried interest, mortgage servicing rights deferral and favorable long-term capital gains rates.

Summary of Key Policy Provisions:

- **Bonus Depreciation** reinstated at 100 percent and made permanent, allowing full expensing of qualifying assets in the first year.
- **Qualified Business Income** deduction preserved at 20 percent and made permanent, continuing tax relief for pass-through owners.
- **Estate and gift tax exemptions increased,** providing a larger tax shelter for estates.
- **Opportunity Zones** made permanent, with new 10-year designation cycles designed to broaden geographic eligibility.
- **State and Local Tax (SALT)** deduction cap raised from $10,000 to $40,000 through 2028, subject to income-based phaseouts.

Opportunity zones made permanent. The new legislation aims to broaden the geographic presence of Opportunity Zones by making the program permanent, instituting recurring designation cycles every ten years and tightening eligibility to target economically distressed areas. These changes are set to reduce policy uncertainty and bolster investment in tax-advantaged locations. Taxpayers will be able to defer capital gains for five years by investing in qualified funds and receive a 10 percent basis step-up — or 30 percent for rural zones — after that period. Gains from investments held at least 10 years may be fully excluded, with additional benefits for holdings beyond 30 years.

Expanded SALT deduction supports property owners. The state and local tax (SALT) deduction cap will rise from $10,000 to $40,000 beginning in 2025. Eligibility will phase out above $500,000 in income, and the higher cap will expire after 2029. The final act also preserves the deductibility of state-level pass-through entity (PTE) taxes, offering near-term relief for individual taxpayers and real estate investors. This change is especially impactful for property owners in high-tax states like New York, California and New Jersey, where state and local liabilities often far exceed the prior deduction limit.

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; RealPage, Inc.