

Q&A

DEPRECIATION BENEFITS DRIVING REAL ESTATE TRANSACTIONS

WITH MATT POURCHO

Executive Vice President, CBRE



Interviewed by: Jennifer Simmonson, MAI, Director - Real Estate Valuation, Marshall & Stevens

Jennifer Simmonson, MAI, Director, Real Estate at Marshall & Stevens, speaks with Matt Pourcho, Executive Vice President of Investment Properties and Capital Markets at CBRE. Their discussion explores how the One Big Beautiful Bill Act, particularly the permanent restoration of 100% bonus depreciation, is influencing investor decision-making, 1031 exchange strategies, office market activity, owner-user demand, and overall transaction velocity in today's commercial real estate environment.

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Has the permanent restoration of 100% accelerated depreciation changed the math for investors, particularly those targeting value-add industrial or office properties?

“Absolutely. The math is a game changer.”

Many high-net-worth families who have owned or inherited property for years are simply collecting cash flow without fully understanding the opportunity cost of holding those assets and not utilizing a 1031 exchange combined with accelerated depreciation.

When 100% bonus depreciation was reinstated, after phasing down toward zero, it immediately stimulated activity. If an investor purchases a new property or

executes a 1031 exchange using leverage greater than their existing basis, the ability to accelerate depreciation in year one is substantial.

In many cases, the write-off is so significant that clients are not paying federal income taxes for three to five years, depending on their tax situation. Even if the depreciation exceeds current income, it carries forward as a “loss carry-forward” for future years.

Cost segregation is a “phenomenal tool” to accelerate depreciation and enhance overall returns.



Can you share a specific example?

Yes. My team is currently averaging two to three presentations per week focused specifically on the Big Beautiful Bill and cost segregation analysis.

We provide clients with a detailed trade-up analysis:

- Current cash flow
- Projected cash flow after a 1031 exchange
- Estimated duration of federal tax offset (e.g., 2-5 years)

In one case, we showed a family earning \$17,000 per month net from an apartment building they have owned since the 1970s, they could increase net income to approximately \$47,000 per month through a trade-up strategy. Their federal income taxes were projected to be eliminated for approximately 3.7 years.

In another example, a property owner earning \$18,500 per month with a long-term tenant, initially resisted selling but after reviewing the cost segregation projections and confirming it with her CPA, she 1031 exchanged into better properties while generating approximately \$45,000 per month, with longer lease terms and stronger credit tenants.

This is not “broker talk.” The analysis is grounded in legislation and confirmed by CPAs. Math is math.



With 100% bonus depreciation now permanent, how essential has cost segregation become in the sales process? Are sellers proactively providing studies, or are you introducing the strategy?

My team proactively introduces cost segregation into the marketing and underwriting process rather than waiting for sellers to provide studies.

For owner-users evaluating vacant buildings, they incorporate lease-versus-own analysis directly into marketing materials. When factoring in cost segregation, the write-off is often so substantial that it wipes out occupancy costs for several years.

I recently toured a vacant building with a local San Diego company seeking to shelter \$40 million in net income. The analysis showed that purchasing and accelerating depreciation could meaningfully offset that exposure.

“It’s just math.” The strategy removes sales rhetoric and replaces it with quantifiable financial outcomes.





Investors owe it to themselves to understand their numbers, consult their CPAs, and evaluate whether these strategies align with their financial goals.

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Is this affecting virtually every sale your team is handling?

Yes. I estimate cost segregation now impacts over 80% of transactions my team handles.

Approximately 90% of clients were unaware the law had changed. Education has become central to every buyer and seller conversation. I see it as my responsibility to bring the opportunity to every client's attention.

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Are investors trading up, and how does cost segregation factor into their strategy?

Investors are actively trading up, and cost segregation is “the octane to the fire”.

While trade-ups can make sense independently, accelerating depreciation on the incremental basis significantly enhances results. For example, selling a \$5 million property and acquiring a \$10 million asset allows acceleration on the additional \$5 million basis.

In many cases, this results in zero or minimal federal income taxes for several years due to the size of the write-off. CPAs increasingly confirm and advocate for these strategies.

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With elevated cost of capital, is this offsetting hesitation?

Cap rates have increased (e.g., industrial from 3.5–4% to 5.5–6%), but acquisition yields adjust accordingly.

“A rising tide lifts all boats.” When cap rates rise, both sale and purchase pricing adjust. The trade-up strategy works in both up and down markets because pricing and yield move together.



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Office vacancy remains challenged nationally, yet sales spiked in some markets. Is this distress-driven or tax-driven?

San Diego's office fundamentals have been comparatively strong. Only one of 29 submarkets—downtown—experienced significant distress, and over 80% of those buildings have already traded and been reset.

Suburban markets have remained healthy, supported by demographics dominated by small professional firms (architects, attorneys, CPAs, engineers).

Cost segregation is particularly impactful in office properties due to the large number of depreciable components (demising walls, lighting, etc.) compared to warehouse properties.

Recent office buyers include 1031 exchange investors purchasing at cap rates around 8-8.5%. With debt near 6%, investors can approach 9.5–10% returns before layering in cost segregation, which can significantly reduce or eliminate federal taxes for years.

Cost segregation is a “fundamental growth driver” in office sales, particularly on the private investor side.

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What is driving the significant price disparity between owner-users and investors?

Investor valuations declined as cap rates moved from roughly 6.5–7% pre-pandemic to 8–8.5%. Owner-users analyze differently. They evaluate:

- Current rent (e.g., \$2–\$5 per square foot)
- Lease expiration timing
- Tax write-offs
- Long-term control and appreciation

With cost segregation, occupancy costs can be nearly eliminated for several years due to the large upfront write-off.

There are examples where office buildings sold at \$225 per foot to condo re-positioners, who then exit/sell condos at \$600 per foot after installing a condo map.

Over a 5-, 10-, or 15-year horizon, ownership is a “no-brainer” when factoring in depreciation, appreciation, and avoided rent payments.

Additional Case Study: Capital Deployment Without a 1031 Exchange

Another example is a wealthy family that was earning 4–4.5% in T-bills; after learning about reinstated 100% bonus depreciation, they deployed cash into leased real estate assets generating approximately 6% returns.

By running cost segregation studies, they projected no to minimal federal income taxes for several years due to large first-year write-offs.

This demonstrates the legislation's impact beyond traditional trade-up strategies.

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Will this momentum continue? Do you expect greater demand as awareness grows?

I'm not predicting an immediate dramatic spike, but I expect continued upward momentum, particularly during tax season.

High-net-worth individuals frequently react strongly when reviewing seven-figure tax bills with their CPAs. Increasingly, CPAs are recommending real estate ownership combined with accelerated depreciation, recalling the powerful impact from 2016–2020.

Since the legislation passed in July 2025 and 100% bonus depreciation was reinstated, CBRE has experienced a measurable increase in transaction velocity, which has continued into 2026.

My conclusion: investors owe it to themselves to understand their numbers, consult their CPAs, and evaluate whether these strategies align with their financial goals.

Overall Takeaway

The restoration of 100% bonus depreciation has materially altered investor and owner-user behavior. It has:

- Increased transaction velocity
- Strengthened trade-up strategies
- Revitalized office acquisitions
- Narrowed the lease-versus-own debate
- Elevated CPA involvement in real estate strategy

As Matt consistently emphasizes, “The math is the math.”

And in today’s environment, that math is driving measurable activity across commercial real estate markets.



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Jennifer Simmonson is a third-generation Southern California real estate appraiser specializing in commercial valuation. Her diverse client base includes estate attorneys, REITs, title companies, energy companies, local and national investment firms, development and operating companies, commercial and investment banks, and insurance companies.



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Matt Pourcho heads the San Diego region for CBRE’s Private Capital Partners team. He and his team are widely recognized as the leading investment sales and 1031 exchange team in the Pacific Western United States specializing in the sale of office and industrial buildings as well 1031 buyer representation. Since 2017, the team has sold more than 689 transactions valued at over \$10.6 billion and Matt has maintained the number one market share in terms of number of sales for office and industrial buildings below \$30,000,000 in San Diego County for 8 years in a row.