

The One Big Beautiful Bill Act (OBBBA): Implications for Commercial Real Estate, Land Owners, and Related Stakeholders

Prepared by Brent Pennington CCIM, ALC, Member of CCIM Institute and Realtor Land Institute

The One Big Beautiful Bill Act (OBBBA), enacted by the 119th United States Congress and signed into law in July 4, 2025, represents a major overhaul of federal tax and development incentives, with far-reaching effects on commercial real estate, industrial property, landowners, and businesses that own property. This white paper synthesizes the key provisions of the OBBBA, explains critical terms, and analyzes the impacts and strategic considerations for various stakeholders. The OBBBA introduced sweeping tax reforms and development incentives, particularly targeting industrial and commercial real estate. Its core objectives include stimulating domestic investment, accelerating industrial development, and expanding economic opportunities in designated areas.

Key Provisions Affecting Commercial Real Estate

1

100% Bonus Depreciation

Immediate deduction of the entire cost of qualifying property (such as machinery, equipment, and certain building components) in the year it is placed in service, rather than depreciating over several years.

OBBBA Change: Restores and makes permanent 100% bonus depreciation for property acquired and placed in service after January 19, 2025, through at least 2030.

Impact: Accelerates tax savings and improves cash flow for property owners and investors, making new construction, renovations, and equipment purchases more financially attractive.

2

Qualified Production Property (QPP)

Nonresidential real property used as an integral part of manufacturing, production, or refining tangible personal property in the United States.

OBBBA Change: Introduces elective 100% depreciation for QPP placed in service by 2030, including new construction and certain acquisitions, provided construction begins after January 19, 2025.

Impact: Provides a substantial incentive for industrial and manufacturing facility development, encouraging investment in U.S. production infrastructure.

3

Section 179 Expensing

Allows businesses to expense the cost of qualifying property (such as equipment and certain improvements) up to a set limit in the year placed in service.

OBBBA Change: Increases the Section 179 deduction cap from \$1 million to \$2.5 million, with phase-outs threshold at \$4 million for property placed in service after December 31, 2024.

Impact: Enables immediate expensing of more assets, benefiting landlords and property investors by reducing taxable income and improving cash flow.

The OBBBA introduces significant changes to depreciation rules and tax incentives that will reshape investment strategies in commercial real estate, particularly for industrial and manufacturing properties.

Additional Key Provisions

Qualified Business Income (QBI) Deduction

Definition: Deduction for up to 20% of qualified business income from pass-through entities, including most rental real estate activities.

OBBBA Change: Makes the QBI deduction permanent, with proposals to increase it to 23% for tax years after December 31, 2025 for three specific contexts within Section 199A.

Impact: Lowers effective tax rates for real estate investors and landlords, increasing after-tax returns on rental and investment property income.

Interest Deduction Rules

Definition: Rules governing the deductibility of business interest expense on loans and mortgages.

OBBBA Change: Liberalizes the calculation for deductible business interest by excluding depreciation and amortization from the adjusted taxable income base, allowing more interest to be deducted.

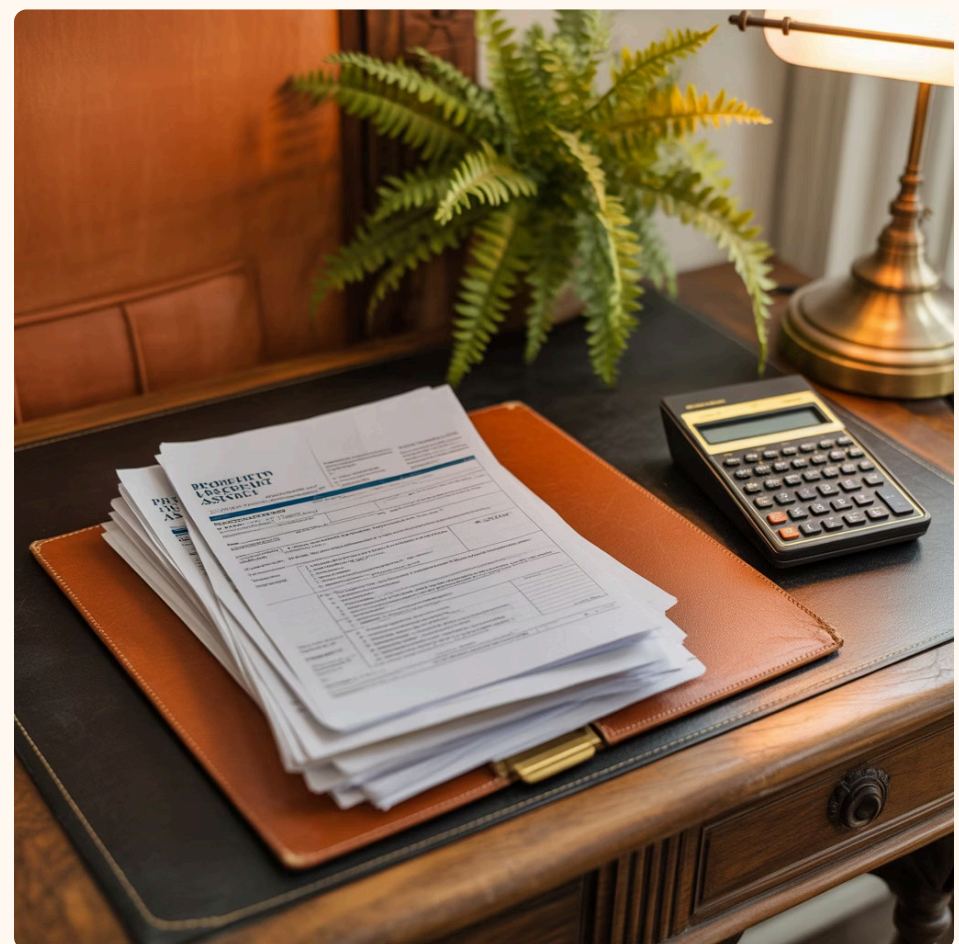
Impact: Landlords and property owners can deduct a larger portion of their mortgage and loan interest, which could improve after-tax returns and encouraging the use of debt financing for acquisitions and improvements.

Cost Segregation

Definition: A tax strategy that identifies and separates short-lived components (such as 5, 7, or 15-year property) within a building for accelerated depreciation.

OBBBA Change: Enhanced value due to restored 100% bonus depreciation, allowing full expensing of identified short-lived components in the first year.

Impact: Significantly increases current-year tax deductions, improves after-tax cash flow, and applies to both new construction and acquisitions of existing properties. Cost segregation becomes a critical tool for maximizing the financial benefits of property investment.



Final Key Provisions



Section 1031 Like-Kind Exchanges

Definition: Allows deferral of capital gains taxes when exchanging one investment property for another of like kind.

OBBBA Change: Preserves the ability to use 1031 exchanges for commercial real estate.

Impact: Investors can continue to defer capital gains taxes by swapping investment properties, supporting portfolio growth, market liquidity, and strategic asset repositioning.



Depreciation Recapture

Definition: The process of paying back some of the tax benefit received from depreciation deductions when an asset is sold for more than its adjusted basis.

OBBBA Change: Introduces special rules that allow taxpayers to avoid depreciation recapture on certain qualified production property if held for at least 10 years and used in qualifying activities.

Impact: For qualifying assets, this provision can significantly reduce the tax liability upon sale, incentivizing long-term holding and operation of production property. For other assets, traditional recapture rules continue to apply.



Low-Income Housing Tax Credit (LIHTC)

Definition: A federal tax incentive to encourage investment in affordable housing projects.

OBBBA Change: Expands the LIHTC, by increasing the allocation cap and reducing the bond financing threshold further encouraging development in underserved and low-income areas.

Impact: Increases the pool of affordable housing projects, incentivizes private investment in low-income communities, and supports community revitalization efforts.

Effects on Industrial Property Owners, Investors, and Landlords

Major Tax Benefits

- Immediate Full Expensing: Landlords and investors can fully deduct the cost of qualifying improvements, equipment, and some building components in the year placed in service.
- Enhanced Cost Segregation: Greater benefit from identifying short-lived components for immediate expensing.
- Higher Section 179 Cap: More equipment and property can be expensed in the first year.
- Permanent QBI Deduction: Ongoing 20% deduction on net rental income.
- Improved Interest Deduction: More favorable calculation for deducting mortgage and loan interest.
- Opportunity Zones and 1031 Exchanges: Long-term tax deferral and strategic flexibility for reinvestment.

Strategic Implications

- Accelerated Investment: Encourages upgrades and new construction.
- Improved After-Tax Returns: Immediate and larger deductions mean more cash retained.
- Planning: Timing capital expenditures and conducting cost segregation studies are now even more valuable.

Timeline and Eligibility:

- Property must be acquired after January 19, 2025
- Must be placed in service by the end of 2030
- Extended timelines available for long construction periods

100%

Bonus Depreciation

Immediate deduction of qualifying property

\$2.5M

Section 179 Cap

New increased deduction limit

20%

QBI Deduction

Permanent deduction for pass-through entities

10+

Years

Hold period to avoid recapture on qualifying property

Effects on Land Owners Selling for Development

Capital Gains Tax Deferral and Reduction

- Section 1031 Like-Kind Exchanges: Continued ability to defer capital gains taxes by reinvesting in other investment real estate.
- Opportunity Zones: Permanent incentives allow for capital gains deferral and potential reduction/elimination if gains are reinvested in Qualified Opportunity Funds.

Tax Rate and Deduction Changes

- No Increase in Capital Gains Rates: Long-term capital gains remain at favorable rates.
- QBI Deduction: May apply to certain development or investment income for pass-through entities.

Market Impact

- Increased Demand for Development Land: Expansion of Opportunity Zones and LIHTC expected to boost demand and prices for developable land.
- Traditional Tax Strategies: Installment sales and land banking remain available.

Key Considerations

- Sale Timing: Maximize eligibility for Opportunity Zone or 1031 benefits.
- Sale Structure: Work with advisors to preserve long-term capital gains treatment.
- Local Incentives: Monitor for additional state/local programs.

Depreciation, Recapture, and Asset Treatment

100% Bonus Depreciation

- Immediate Write-Off: Deduct the full cost of eligible property in the first year.
- Applies to New and Used Assets: Covers most tangible property with a recovery period of 20 years or less.

Section 179 Expensing and Recapture

- Full Expensing Up to Cap: Deduct up to \$2.5 million in the year placed in service.
- Recapture Rules: If business use drops below 50% or asset is sold/disposed before end of recovery period, recapture applies as ordinary income.

Recovery Periods

- Trucks and Vehicles: Five-year recovery period under MACRS.
- Buildings: Typically, 39 years for nonresidential real property.

Depreciation Recapture

Asset Type	IRS Section	Recapture Tax Rate
Personal Property	1245	Ordinary income rates (up to 37%)
Real Property	1250	Up to 25% (unrecaptured gain)



Summary and Strategic Recommendations

1

OBBBA Key Terms and Effects

Term	OBBBA Impact
100% Bonus Depreciation	Immediate full expensing for qualifying assets
Qualified Production Property	100% deduction for new/expanded manufacturing and industrial CRE
Section 179 Expensing	Deduction cap raised to \$2.5M; more assets can be expensed
QBI Deduction	Permanent (possibly increased to 23%) deduction for pass-throughs
Cost Segregation	Enhanced tax savings with full bonus depreciation

2

Strategic Recommendations

- Industrial Owners/Landlords: Leverage bonus depreciation and cost segregation to maximize upfront tax benefits. Time capital expenditures to align with new incentives.
- Landowners: Structure sales to utilize 1031 exchanges or Opportunity Zone investments for optimal tax deferral.

Industry Impacts

- Industrial Sector Growth: Accelerated manufacturing reshoring driven by tax incentives, increased speculation and development in industrial properties, premium valuations for properties with manufacturing potential
- Investment Flow Changes: Capital allocation shift toward qualifying property types, increased merger and acquisition activity in industrial real estate, enhanced competition for prime manufacturing sites

The OBBBA delivers substantial tax incentives and development opportunities for commercial real estate, industrial property owners, and land sellers, while preserving and expanding key deferral and deduction mechanisms. Understanding and strategically applying the OBBBA's provisions is essential for maximizing benefits and navigating the evolving landscape of U.S. real estate and development.

This white paper is based on current understanding of the One Big Beautiful Bill Act provisions. Property owners should consult with qualified tax and legal professionals before making investment decisions, as regulations and interpretations may evolve.



Contact Information

Brent Pennington

Advisor Senior Vice President
Metroport Commercial Group, eXp Commercial
1720 Bray Central Drive
McKinney, TX 75069
817-999-8266
brent@metroportcommercial.com
www.metroportcommercial.com

Sources: Text of the One Big Beautiful Bill Act, 119th Congress (2025), IRS Guidance on OBBBA Implementation and Tax Provisions, National Association of Realtors: 2025 OBBBA Tax Reform Analysis, Urban Institute: Opportunity Zones and Affordable Housing under OBBBA (2025)

Note: For legal or tax advice, consult qualified professionals. The above citations are representative and should be verified for the most current legislative and regulatory updates.