



# Commercial property pros focus on incentives in sweeping federal tax and funding law

Newly signed measure said to hold some positives for industry, driven by tax incentives



Diego Bonet, developer of the Wynwood Haus apartments in Miami, sees a long-term benefit for opportunity zones in a new federal tax and spending law. (CoStar)

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Commercial real estate professionals expect the sweeping \$4.5 trillion federal tax and funding bill signed into law by President Donald Trump to have some positive effects on the property industry.

The measure signed into law over the holiday weekend expands tax breaks that executives said could boost investments in new affordable housing and provide more opportunities for investors.

"The new law is generally positive for commercial real estate," Joseph Iacono, CEO of Crescit Capital Strategies, told CoStar News in an email. "The increased focus on tax credits for affordable housing are good for the industry. Ultimately these are helpful to creating stability and liquidity to the commercial real estate capital markets. But these are not major factors — ultimately rate and policy stability will be the most important."

The law, officially titled the One Big Beautiful Bill Act, includes about \$930 billion in spending reductions affecting Medicaid and food aid programs for low-income families. It also cuts funding for programs geared to clean-energy development and manufacturing. By a 218-214 vote, the House passed a reconciled version of the bill on July 3, culminating a four-month process of deliberations one day ahead of Trump's July 4 deadline issued to his GOP supporters in Congress.

The Republican-led law is not without its downsides for the industry, real estate professionals said. The termination of energy efficiency credits might lead to increased construction costs, potentially slowing building efforts. Additionally, economists have raised concerns over the bill's level of government spending, which is projected to add more than \$3 trillion to the national debt over the next decade.

Here's a look at how elements of the law are expected to affect commercial real estate:

## Opportunity zones

The bill makes the "opportunity zone" incentive a permanent fixture of the U.S. tax code, allowing for new areas to be designated every 10 years. Opportunity zones are a place-based economic development tool established by the Tax Cuts and Jobs Act of 2017. Their primary purpose is to stimulate investment and economic growth in designated low-income and undercapitalized communities across the country.

A key shift in strategy in the new law is the mandate that one-third of these new zone designations must be entirely in rural communities. This signals a concerted focus on rural revitalization.

Making the provision permanent is a win that creates long-term stability in the market and sustained access to tax-advantaged capital for real estate projects in underserved areas, Diego Bonet, managing partner at LD&D, a Miami-based developer actively building opportunity zone projects in Florida, told CoStar News in an email.

Bonet pointed to a timing effect that could blunt investment at first.

"The structure of the transition — sunseting the current program in 2026 and delaying the new one until 2027 — has created a near-term funding gap that could influence how developers approach both active and proposed projects," Bonet said. "The uncertainty around timing could slow momentum due to many investors potentially sitting on the sidelines until the new incentives take effect."

That said, the multifamily market is expected to be in an upswing — particularly for cities where population growth outpaces new supply — when projects under construction today are built, Bonet added.

## Housing tax credits

The Low-Income Housing Tax Credit program also received enhancements. The new law increases allocations for the program starting next year. This means

states will have more authority to issue tax credits to affordable housing projects, potentially leading to more units being developed, according to analysis shared with CoStar News by Peter Lawrence, chief public policy officer of accounting, valuation and consulting firm Novogradac & Co.

The bond financing threshold for LIHTC projects was lowered from 50% to 25%, also beginning in 2026. This change makes it easier for projects financed with tax-exempt bonds to qualify for the credits — a crucial component for many affordable housing developments.

Lawrence estimated that 1.22 million additional affordable rental units could be financed over 2026-2035 following the enactment of the LIHTC provisions.

Another affordable housing tax credit program, the New Markets Tax Credit, was made permanent with \$5 billion in annual allocation authority, a significant victory for community development projects. The NMTC encourages private investment in qualified development entities to promote economic growth in low-income areas.

## Beyond housing

The new law also solidifies several crucial business tax provisions, offering long-term stability for commercial real estate stakeholders.

One of the most significant changes, according to industry leaders, is the full reinstatement of 100% first-year bonus depreciation. This provision, previously set to phase out under the 2017 Tax Cuts and Jobs Act, will now apply to qualified property placed into service after Jan. 19, 2025, through Dec. 31, 2029.

"We may see a boost in transaction activity and investor interest in the third quarter of 2025 with the enactment of this law," Ryan Begley, executive vice president at commercial real estate firm Kidder Mathews, told CoStar News in an email. Investors have been "waiting for 100% bonus depreciation to return," he said.

This change can identify massive first-year deductions against taxable income for commercial property tenants and anyone buying or building commercial or residential rental real estate, Begley said.

"For owner-users, this means the ability to significantly reduce their tax liability in the year they acquire assets, freeing up more cash to buy additional equipment and improve property," he said.

The law also allows for owners and tenants to conduct cost segregation studies. These are part of a tax planning strategy that involves identifying and classifying different components of a building and its land improvements, such as electrical systems, plumbing, flooring and sidewalks, into what's known as depreciation periods.

"By utilizing a cost segregation study, tenants can identify non-structural interior components within a tenant improvement project and deduct a significant portion of the build-out cost," Begley said.

The law also makes the qualified business income deduction permanent, allowing real estate investors to deduct a larger portion of their business income.

"Accelerated depreciation, coupled with the qualified business income deduction, could particularly drive investor behavior in the industrial and multifamily sectors," Marco Santarelli, founder of Norada Real Estate Investments, told CoStar News in an email.

### Like-kind exchanges

The law also preserves Section 1031 like-kind exchanges and the tax code's so-called gain on sale rollover provision, both vital tools for real estate investors.

A 1031 like-kind exchange is a transaction under U.S. tax law that allows real estate investors to defer paying capital gains taxes when they sell a property and reinvest in another similar property.

"Whether perceived as positive or negative, the new law provides some much-needed clarity," Jeff Brown, founder and CEO of property investor T2 Capital Management, told CoStar News in an email.

"Among other provisions, like-kind (1031) exchanges have been preserved, and opportunity zone benefits have been extended. Both will stimulate transaction volume, including new construction projects, while fueling capital markets. Lord willing, this also unlocks liquidity within the private equity markets enabling institutions to redeploy capital."

### Negative impact

Other provisions of the law are seen as challenges for commercial real estate. Among spending cuts in the law is funding for programs geared toward clean energy development and manufacturing.

"The termination of energy efficiency credits under the law could raise construction costs, making it more expensive to build new homes," Santarelli said.

Most significant, however, is that the law raises the federal debt ceiling by \$5 trillion and is projected to increase the national debt by \$3.3 trillion over the next decade, according to the Congressional Budget Office.

"We are, of course, disappointed that the overall bill is predicted to increase the deficit and national long-term debt," Jeffrey DeBoer, president and CEO of the Real Estate Roundtable, said in a statement. "However, we hope that the pro-growth aspects of the bill will narrow both by significantly growing the economy and providing revenues greater than those now projected."

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