



Cost Segregation and the Retail Market

SCENARIO #1

An investor purchases a **\$12 million** shopping center in 2007.

\$10.5 million of the purchase price is allocated to the building. **\$1.5 million** is allocated to land.

The shopping center is in service for **three years and then sold**.

Without a Cost Segregation Study the owner expensed 1/39th of the building each year, which is approximately \$269,000 per year, resulting in a **total depreciation expense of \$807,000**, which reduces income taxes by \$282,000.

Upon sale (at a \$15 million sale price), the investor recognizes \$807,000 gain at 25% and \$3 million gain at 15% rates. **The net tax over the three year period is \$369,000.**

SCENARIO #2

Same investor purchases a **\$12 million** shopping center in 2007.

A Cost Segregation Study is ordered (at an owner investment of \$9,500). The study reallocates portions of the purchase price away from real property to personal property and land improvements.

In fact, **\$1 million** is attributed to personal property, things like carpeting, wall coverings, restaurant equipment support, counters, built-in shelving, and specialty lighting.

Another **\$1.2 million** is allocated to land improvements, such as asphalt, sidewalks, parking lot lighting, landscaping, and drainage.

During the same **three years** of service, approximately **\$1.6 million is expensed through depreciation**, which reduces income taxes by \$560,000 .

Upon sale (at a \$15 million sale price), the investor recognizes \$638,000 gain at 25% and \$4 million gain at 15% rates. **The net tax over the three year period is \$198,000.**

By strategically structuring the sale, the investor saved approximately \$171,000 during the three years of ownership, an ROI of 1800%.

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