Cost Segregation and the Office Complex

SCENARIO #1

An investor purchases a **$10 million** two-building office complex.

$7.6 million of the purchase price is allocated to the building.
$2.4 million is allocated to land.

Without a Cost Segregation Study the owner expenses 1/39th of the building each year, which is approximately **$195,000 each year**, resulting in **depreciation expense of $1.95 million over the first ten years.**

SCENARIO #2

An investor purchases a a **$10 million** two-building office complex.

A Cost Segregation Study is ordered (at an owner investment of $10,000). The study reallocates portions of the purchase price away from real property to personal property and land improvements.

$792,000 is attributed to personal property, things like carpet, baseboards, wallcoverings, specialty electrical systems, built-in filing systems, telecommunication systems, and specialty lighting.

Another **$935,000** is allocated to land improvements, such as asphalt, sidewalks, parking lot lighting, flag poles, and drainage.

During the **first year, over $310,000** is expensed, resulting in **immediate savings exceeding $40,000**. After **ten years** of service, approximately $**2.93 million** will be expensed through depreciation, compared to the **$1.95 million** in SCENARIO #1, resulting in **additional tax deductions of over $980,000**.

The owner, as a result, could save about $379,000 in federal income taxes over the first ten years, while the cost of the study is recuperated four times over in the first year of operation.

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