

5 Decisions Real Estate Owners Must Make in 2026

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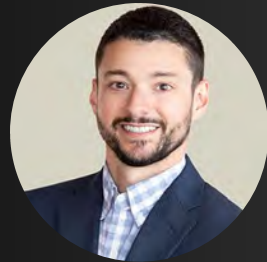
Today's Presenters



Todd Laurie

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Learning Objectives

AFTER THIS WEBINAR, YOU'LL BE ABLE TO:

1. Understand the key tax benefits and compliance requirements of Opportunity Zones and evaluate how these incentives can be applied to real estate investments to defer and reduce capital gains while driving community development. (Chris)
2. Evaluate financing, refinancing and restructuring considerations impacting commercial real estate owners as debt maturities accelerate in 2026. (David) Current trends and evolution of deal structures (Chris)
3. Explore current tax deferral strategies - such as bonus depreciation, Qualified Improvement Property, Qualified Production Property, cost segregation, and energy incentives - that can help to boost cash flow. (Mike)
4. Recognize emerging tax, compliance and operational risks tied to multistate activity, partnership structures, insurance costs and regulatory changes. (David)



Opportunity Zone 2.0 Tax Benefits and Structural Changes

Permanent Program and Rolling Timelines

Opportunity Zone 2.0 makes the program permanent with rolling, investment-specific timelines replacing fixed statutory deadlines.

Capital Gain Deferral and Basis Step-Up

Rolling five-year capital gain deferral and a 10% basis step-up reduce taxable gains for long-term investors.

Long-Term Tax Exclusion and Cap

Investors holding QOF interests for ten years may exclude appreciation from taxes, capped within a 30-year rolling window.

Rural Opportunity Zone Enhancements

Rural OZs provide a 15% basis step-up and reduced substantial improvement standards, expanding qualifying projects.

Opportunity Zone 2.0

Map, Timing and Designation Process



New Eligibility Framework

Opportunity Zone 2.0 uses stricter criteria focusing on economic distress and emphasizes rural community inclusion.

Designation Process and Timing

States can nominate up to 25% of eligible tracts with final designations effective January 1, 2027, creating a competitive process.

Investor Risks and Opportunities

Site selection impacts tax benefits; early engagement and understanding state priorities are crucial for investors.

Stakeholder Engagement Importance

Active lobbying and collaboration with local and state officials during 2026 shapes final Opportunity Zone nominations.

Opportunity Zone 1.0 Gain Recognition and 2026 Inclusion Planning



Mandatory Gain Recognition 2026

Capital gains deferred under Opportunity Zone 1.0 become taxable December 31, 2026, regardless of investment sale status.

Valuation Impact on Taxable Gain

Gain recognized is the lesser of deferred gain adjusted for basis step-up or fair market value, making valuation critical.

Entity-Level Tax Considerations

QOF partnerships or S corporations require hypothetical sale analysis factoring prior losses, distributions, and debt for accurate gain recognition.

Proactive Inclusion Planning

Early engagement with valuation experts and integrating tax attributes ensures preparedness for 2026 gain inclusion event.

Remaining Opportunity Zone 1.0 Window and Legacy Project Considerations



Limited OZ 1.0 Window

Opportunity Zone 1.0 benefits end in 2026, but geographic designations last until 2028 providing a brief investment window.

Legacy Tract Considerations

Legacy tracts may lose eligibility under OZ 2.0, making 2027–2028 critical for final qualifying investments.

Strategic Flexibility Needed

Investors must balance quick action with flexibility due to uncertainties between OZ 1.0 and OZ 2.0 benefits.

Focus on Economic Merit

Prioritize projects with strong economic potential independent of tax incentives to adapt to evolving rules.

What OZ Investors Should Be Doing Right Now



Model 2026 OZ 1.0 Gain Exposure

QOF investors must analyze 2026 gains with valuation, tax attributes, and liquidity planning to avoid financial strain.

Understand OZ 2.0 Eligibility Landscape

Develop a deep understanding of OZ 2.0 eligibility, distinguishing rural from non-rural tracts and state designation likelihood.

Actively Engage in Designation Process

Actively participate with governments and stakeholders to advocate for key site inclusion in state nominations.

Define Your Long-Term OZ 2.0 Strategy

Establish a repeatable OZ 2.0 investment platform aligning capital raising, asset management, and exit timing.

Evaluate Existing OZ 1.0 Assets

Assess OZ 1.0 assets for project completion timelines / feasibility and begin exit planning

Evolving Capital Structure: What's Changing

Transactions remain muted

- Higher-than-expected interest rates and operating costs
- Shifting real estate utilization (remote, tech, migration)
- Overall “uncertainty” has capital tentative 45L sunsets for homes acquired after June 30, 2026

Debt pressure is increasing

- Lenders tightening → more DILs, foreclosures, discounted note sales
- Some fixed-rate debt creating “hold and recover” optionality

Tax Implications of New Capital Structures

Capital stacks are changing

Increased use of preferred equity and rescue capital

Loan extensions becoming less available

Underwriting is more critical (and harder)

Prior assumptions (inflation, expenses, rent growth) need to be re-tested

Preferred equity \neq straightforward tax treatment

Debt vs. equity classification drives:

- Return characterization (interest vs. GP vs. allocable income)
- State tax outcomes

Tax Implications of New Capital Structures

Allocations and losses may not follow economics

- Depreciation/losses often stay with common equity
- Capital calls and dilution don't always shift tax attributes cleanly

Workouts & restructurings can trigger tax events

- Loan modifications and conversions → COD income risk
- Even without principal reduction

Don't Be Caught Off-Guard

- Economic loss ≠ tax loss
- Deals can generate phantom income or unusable losses



Depreciation Provisions Summary





Bonus Depreciation

100% immediate deduction for qualified property acquired after January 19, 2025

Optional reduced deduction (40% or 60%) for certain property types

Applies to Qualified Improvement Property (QIP)

Property considered acquired when a binding contract is signed

Qualified Production Property (QPP)



100% deduction of adjusted basis in year placed in service

Applies to nonresidential real property used in Qualified Production Activity

Construction must begin after January 19, 2025 and be placed in service before Jan 1, 2031

Depreciation recapture applies if property ceases to qualify within 10 years

How Depreciation Impacts You



Depreciation always flows to the ultimate owner of the asset

100% bonus depreciation on eligible property acquired/constructed/placed in service after 1/19/2025

Qualified Improvement Property – 100% bonus eligible for interior, not structural improvements to an existing building

Section 179 Expensing



Limit increased to \$2.5 million with \$4 million phaseout

Applies to assets placed in service after Dec 31, 2024

Eligible assets: tangible personal property, roofs, HVAC, fire protection, alarm and security systems

Includes property used to furnish lodging (e.g., hotels, rentals)

Sunsetting of Energy Efficiency Incentive

Notable Changes:

- 45L Credit: Up to \$5,000 for Net Zero Ready homes
- 45L sunsets for homes acquired after June 30, 2026
- 179D Deduction: Up to \$5.81 per sq. ft. for energy-efficient commercial buildings
- 179D sunsets for construction starting after June 30, 2026
- Government and nonprofit owners can allocate 179D to primary designer



Emerging Risks

Tax, compliance and operational risks tied to:

- Multi-state activity
- Partnership structures
- Insurance costs
- Regulatory changes

Q&A





Thank you for attending

Additional questions?

Reach out to us at experts@armanino.com

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