

# The One Big Beautiful Bill

## Impact on Commercial Real Estate Investment and Development (2025-2027)

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, introduces significant tax and economic policy changes that reshape the landscape for commercial real estate (CRE) investment and development in the United States. This report delves into the key provisions affecting CRE, drawing on prior discussions about Texas and Atlanta markets, legislative impacts like the OBBBA and Texas Senate Bill 840, and economic trends in Houston, Dallas-Fort Worth, and Atlanta. It also provides estimates of the economic impact of these provisions over the 2025-2027 period, focusing on office, retail, multifamily, and industrial sectors, with a particular emphasis on Texas and Atlanta due to their relevance in your previous inquiries.

# Key Provisions Impacting Commercial Real Estate

The OBBBA extends and modifies provisions from the 2017 Tax Cuts and Jobs Act (TCJA) while introducing new incentives tailored to CRE. Below are the primary provisions affecting investment and development, informed by prior conversations about market trends and legislative impacts:



## 1. Reinstatement of 100% Bonus Depreciation

**Details:** The OBBBA permanently reinstates 100% bonus depreciation under IRC §168(k) for qualified property placed in service after January 19, 2025. This includes tangible personal property with a recovery period of 20 years or less, certain qualified improvement property, and nonresidential real estate used for manufacturing, production, or refining (qualified production property, or QPP) through 2030. This reverses the TCJA's phase-down (40% in 2025, 20% in 2026, 0% in 2027).

**Impact on CRE:** Immediate expensing of building systems, equipment, and interior improvements accelerates cash outflows for developers and investors, particularly for value-add projects like office retrofits and industrial developments. For example, in Houston's office market, where Class A properties in submarkets like Galleria/West Loop see strong demand (26.5% vacancy rate in Q1 2025), bonus depreciation incentivizes retrofitting older buildings to compete with modern assets. Similarly, in Dallas-Fort Worth's industrial sector, where shallow bay and outdoor storage are growing, this provision supports rapid development of logistics and warehousing facilities.

## 2. Permanent Extension of Qualified Opportunity Zones (QOZs)

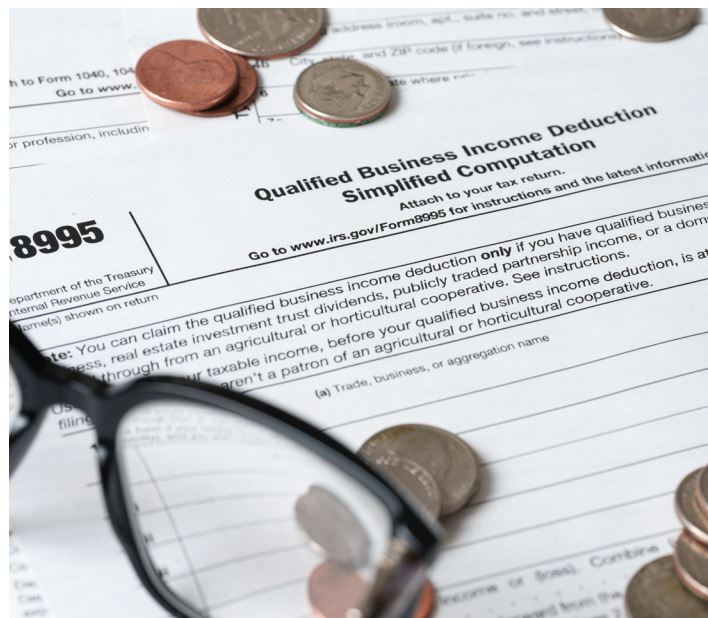
**Details:** The OBBBA makes the QOZ program permanent, with new designations starting July 1, 2026, effective from January 1, 2027, in 10-year cycles. It emphasizes rural areas (33% of zones must be rural) and reduces the substantial improvement threshold to 50% for rural properties. Investors gain a 10% basis step-up after five years (30% for rural zones) and full exclusion of gains after 10 years. The program also allows deferral of up to \$10,000 in ordinary income, with tightened eligibility for low-income communities (median income <70% of area median or poverty rate  $\geq$ 20%).

**Impact on CRE:** The permanence of QOZs provides long-term tax planning stability, encouraging investment in distressed areas. In Texas, particularly in Dallas-Fort Worth's Opportunity Zones like Firefly Park, this could spur multifamily and mixed-use developments despite tariff-related cost increases (1-2% per unit). In Atlanta, a rising Sun Belt star, QOZs are likely to drive retail and multifamily projects in underserved areas, though critics note past market-rate housing bias in non-low-income zones. The rural focus may shift some

### 3. Expansion of Low-Income Housing Tax Credit (LIHTC)

**Details:** The OBBBA increases 9% LIHTC allocations by 12.5 points through 2029 and lowers the bond-financing threshold for 4% LIHTC projects to 25% for projects financed after 2025. Tribal and rural areas are designated as Difficult Development Areas (DDAs), enhancing credit availability.

**Impact on CRE:** This expansion significantly boosts affordable housing development, critical in markets like Texas and Atlanta facing housing shortages due to population growth (Texas projected to reach 32.5 million by 2030). In Dallas-Fort Worth, where multifamily vacancy rates hit 11.2% in Q1 2025, LIHTC incentives could stabilize rents by increasing supply, countering declines driven by oversupply. In Atlanta, LIHTC supports the city's appeal for corporate relocations by ensuring workforce housing, complementing its commercial real estate growth.



### 4. Permanent Qualified Business Income (QBI) Deduction

**Details:** The OBBBA makes the 20% QBI deduction under Section 199A permanent for pass-through entities (LLCs, S-corps, partnerships), with a gradual phase-out for high earners (modified to reduce abrupt cutoffs). It also includes dividends from electing business development companies.

**Impact on CRE:** This provision benefits real estate investors and professionals, particularly in Texas, where pass-through entities dominate CRE ownership. In Houston, where the QBI deduction enhances after-tax returns for investors in Class A properties. In Atlanta, it supports small developers and REITs, fostering retail and multifamily projects. The permanent status ensures predictability, unlike the prior 2025 expiration.

### 5. Increased Section 179 Expensing

**Details:** The OBBBA raises the Section 179 expensing limit to \$2.5 million (from \$1 million) with a \$4 million phase-out threshold, indexed for inflation starting 2026. This applies to depreciable business assets, including CRE improvements.

**Impact on CRE:** Higher expensing limits benefit smaller CRE projects, such as retail renovations in Atlanta's suburban markets or industrial retrofits in Dallas-Fort Worth. This complements bonus depreciation, enabling investors to bundle capital expenditures without losing tax benefits, ideal for value-add strategies like BRRRR (Buy, Rehab, Rent, Refinance, Repeat).



## 6. Business Interest Deduction Expansion

**Details:** The OBBBA reinstates a more generous definition of adjusted taxable income (ATI) based on EBITDA (adding back depreciation and amortization) for Section 163(j) interest deductions, effective after December 31, 2024. This expands deductibility for real estate businesses, though electing real property trades may opt for longer-life ADS depreciation.

**Impact on CRE:** This provision reduces financing costs for debt-heavy CRE projects, such as office developments in Houston's Pearland/South submarket or multifamily projects in Atlanta. It supports investors and developers facing high interest rates (e.g., 8.6% average for maturing CRE loans in 2025), mitigating refinance challenges noted in prior discussions.

## 7. State and Local Tax (SALT) Deduction Increase

**Details:** The OBBBA raises the SALT deduction cap to \$40,000 (from \$10,000) for taxpayers with AGI below \$500,000, effective 2025-2029, with a 1% annual increase. It phases out for higher earners and reverts to \$10,000 in 2030.

**Impact on CRE:** Higher SALT deductions benefit property owners in high-tax states, though Texas's low-tax environment minimizes its direct impact. In Atlanta, this could increase disposable income for investors, boosting demand for retail and office spaces. However, the temporary nature limits long-term planning.

## 8. Termination of Clean Energy Tax Credits

**Details:** The OBBBA phases out clean energy credits (e.g., Sections 48, 45, 48E, 45Y) for projects starting after July 4, 2026, or placed in service after December 31, 2027. Residential solar credits end December 31, 2025.

**Impact on CRE:** The rollback reduces ROI for solar and green upgrades, particularly for multifamily and office properties in Texas and Atlanta pursuing ESG goals. Developers must accelerate projects to meet deadlines, potentially increasing costs in high-demand markets like Dallas-Fort Worth, where tariffs already raise material prices by 1-2%.



# Economic Impact Estimates (2025-2027)

Drawing on prior discussions about Texas and Atlanta CRE trends, the OBBBA's provisions are expected to drive significant economic activity in CRE, though impacts vary by sector and region. Below are estimates based on available data, your prior inquiries, and market dynamics:

## Overall Economic Growth

**Estimate:** The Tax Foundation estimates the OBBBA will increase U.S. GDP by 1.0-1.2% over 2025-2034, with a 0.1% annual GDP growth boost. For CRE, this translates to \$50-75 billion in additional investment annually from 2025-2027, driven by bonus depreciation, QBI, and QOZ incentives.

**Texas and Atlanta Context:** Texas's projected population growth (32.5 million by 2030) and Atlanta's status as a Sun Belt hub amplify CRE investment. Dallas-Fort Worth and Houston could see \$10-15 billion in annual CRE investment, while Atlanta may attract \$5-8 billion, fueled by corporate relocations and affordable housing demand.

## Office Sector

**Impact:** Bonus depreciation and QBI deductions incentivize retrofitting Class B and older Class A offices to meet modern standards, particularly in Houston (26.5% vacancy in Q1 2025) and Atlanta. However, high interest rates (8.6% for refinancing) and hybrid work trends limit growth.

**Estimate:** Office investment in Texas and Atlanta could grow by 5-7% annually (\$2-3 billion), with Class A properties in submarkets like Galleria/West Loop and Atlanta's Midtown absorbing most gains. Stabilization of delinquency rates (1.99% in Q4 2024) supports cautious optimism.

## Multifamily Sector

**Impact:** LIHTC expansion and QOZ permanence spur affordable and market-rate housing, critical in Dallas-Fort Worth (11.2% vacancy in Q1 2025) and Atlanta. However, tariff-related cost increases (1-2%) and clean energy credit rollbacks may delay projects or raise rents.

**Estimate:** Multifamily investment could increase by 10-12% (\$5-7 billion annually), with LIHTC driving 50,000-75,000 new affordable units in Texas and Atlanta by 2027.

## Retail Sector

**Impact:** QOZ and LIHTC provisions drive mixed-use retail developments in underserved areas, while SALT deductions boost consumer spending in Atlanta. Texas Senate Bill 840's multifamily conversion incentives complement OBBBA, supporting retail in Dallas-Fort Worth.

**Estimate:** Retail CRE investment may rise by 8-10% (\$3-4 billion annually) in Texas and Atlanta, with Atlanta's suburban markets and Dallas-Fort Worth's Opportunity Zones leading growth.

## Industrial Sector

**Impact:** Bonus depreciation and QPP expensing boost industrial development, particularly in Dallas-Fort Worth and Houston, where Brookfield and Alterra acquisitions signal strong demand for shallow bay and outdoor storage. Atlanta's logistics hub status benefits similarly.

**Estimate:** Industrial CRE investment may grow by 5-15% (\$6-8 billion annually), with Texas leading and Atlanta gaining from e-commerce demand.

## Risks and Challenges

**Deficit and Interest Rates:** The Congressional Budget Office estimates a \$3.4-3.8 trillion deficit increase over 2025-2034, potentially raising long-term interest rates. This could push CRE loan rates above 8.6%, increasing refinancing costs for \$2 trillion in maturing mortgages (2025-2026).

**Clean Energy Rollback:** The phase-out of green credits reduces ESG investment appeal, impacting multifamily and office retrofits in Texas and Atlanta.

**Social Safety Net Cuts:** Medicaid and SNAP reductions may increase rent default risks in Class B/C multifamily properties, particularly in Atlanta's lower-income markets.

# Future Outlook and Strategic Implications

The OBBBA positions CRE for a robust recovery in 2025-2027, aligning with your prior inquiries about Texas and Atlanta's growth potential. Key strategies include:

**Leverage Bonus Depreciation:** Developers should prioritize projects starting post-January 19, 2025, to maximize immediate write-offs, especially for industrial and office retrofits.

**Target QOZs:** Investors should focus on rural and distressed areas in Texas (e.g., Firefly Park) and Atlanta for tax-deferred gains, aligning with population growth trends.

**Pursue LIHTC Projects:** Multifamily developers should capitalize on expanded LIHTC allocations to address housing shortages, particularly in high-growth markets.

**Monitor Interest Rates:** With \$2 trillion in CRE loans maturing, investors must prepare for higher refinancing costs, especially in office and multifamily sectors.

By 2027, the OBBBA is expected to drive a 5-15% increase in CRE investment in Texas and Atlanta (\$20-30 billion total), with industrial and multifamily sectors leading due to tax incentives and demographic trends. However, developers must navigate tariff-related cost increases, high interest rates, and clean energy credit rollbacks to sustain momentum.

“While the ‘One Big Beautiful Bill’ offers permanent benefits ... many of its most impactful provisions, such as 100% bonus depreciation and the more favorable business interest deduction, are temporary with a four- to five-year window,” Triolet said. “This structure strongly encourages real estate investors and developers to act swiftly to maximize these tax advantages before they expire.”

