



PPR
Capital Management

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AN INVESTOR GUIDE

Real Estate's Best-Kept Tax Secret

Accelerated Depreciation, Explained for Investors

Why the tax code lets real estate investors write off a property fast, and how to put that to work before year-end.

For educational purposes only. This guide is not tax advice. Consult your tax advisor before making any decisions.

Cover: A build-to-rent community in the Nashville, Tennessee metro area.

INSIDE THIS GUIDE

What You'll Learn

KEY TAKEAWAYS

- Depreciation lets real estate investors deduct a property's cost over time, and in many cases, **a large chunk of it in year one**.
- This offsets **passive income** (other real estate, other fund distributions), not W-2 wages or active business income, unless you qualify as a Real Estate Professional.
- A **cost segregation study** is what identifies which parts of a property qualify for faster write-offs.
- **Leverage amplifies the benefit** for equity holders specifically. Debt doesn't get a depreciation deduction, so the whole thing flows to the investors who put in equity.
- Not every property type benefits equally. **Car washes** are a notable exception to typical commercial real estate treatment.
- **This is general education, not tax advice. Consult your tax advisor about your specific situation.**

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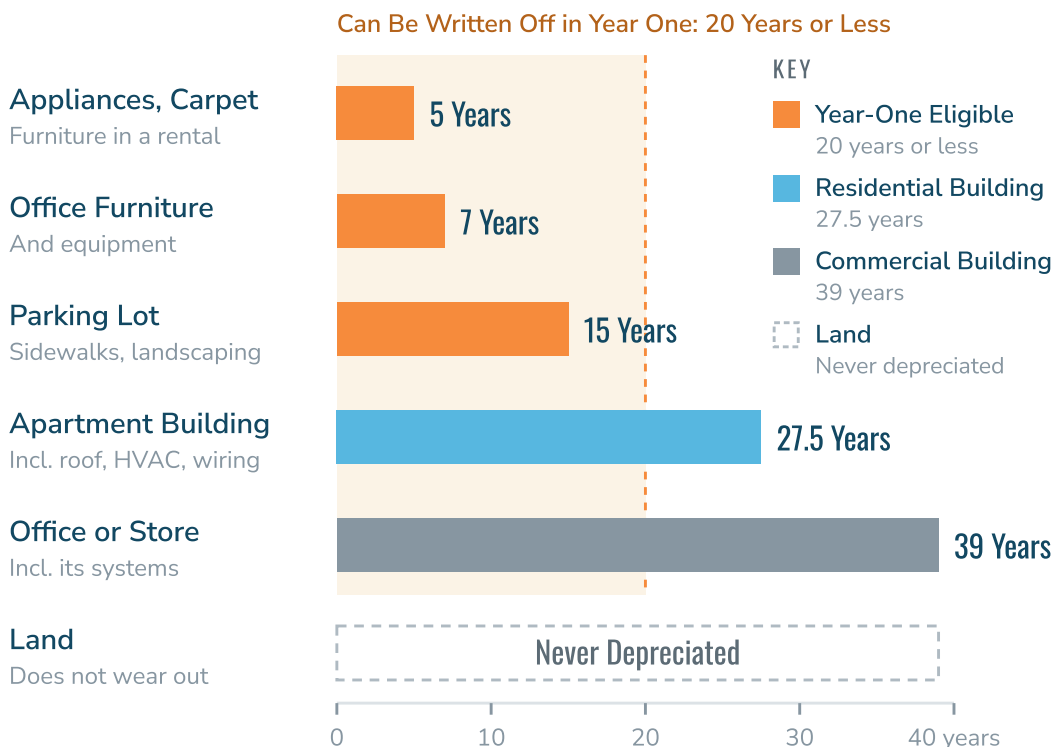
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CHAPTER 1

What Is Depreciation, and Why Does the Tax Code Allow It?

What makes real estate different is **how fast** some of that recognition happens, designed specifically to encourage investment in real estate.

HOW LONG EACH PART TAKES TO WRITE OFF



Recovery periods set by the IRS. Land is never depreciated. Sources: [26 U.S.C. §168](#); IRS Publications [527](#) and [946](#).

Every Building Wears Out

A roof, the flooring, the HVAC system: all of it degrades over time, and the tax code recognizes that by letting owners deduct a portion of a property's cost each year. That's depreciation in its plainest form: not a loophole, just an acknowledgment that a building is a depreciating asset, like a vehicle or a piece of equipment.

Not Every Part Wears Out at the Same Rate

The electrical fixtures, carpeting and parking lot don't last as long as the foundation or the frame, and the tax code treats them that way, assigning much shorter "recovery periods" of 5, 7 or 15 years instead of the 27.5 to 39 years assigned to the building itself.

Under current law, the cost of those shorter-life components can be deducted immediately, in year one. That's **bonus depreciation**, and it's the single biggest lever in this whole conversation.

CHAPTER 2

How Accelerated Depreciation Actually Benefits an Investor

A standard schedule spreads a building's cost evenly over 27.5 or 39 years. Accelerated depreciation breaks that same cost apart first.

A 20-UNIT APARTMENT COMMUNITY

Year-One Deduction, Same Property

PURCHASE PRICE
\$3,500,000*

No Study

One Line Over 27.5 Years



\$98,636

Study, No Bonus

Parts on 5, 15 and 27.5 Years



\$173,436

Study Plus Bonus

5 and 15-Year Parts in Full



\$752,102

WITH A STUDY AND BONUS DEPRECIATION

\$653,466 More Deducted
in Year One

*The \$3,500,000, 20-unit example: \$2,712,500 of building after \$787,500 of land. Illustrative only, not tax advice. Assumes a study moves 15% of the building to 5-year and 10% to 15-year property; every study differs. Straight-line, full first year, 100% bonus depreciation. How much an investor can use depends on their basis, at-risk amount and passive income.

What a Cost Segregation Study Does

An engineering-based study breaks a property's total cost into components: land, the building shell, and then everything else, like flooring, fixtures, certain electrical and plumbing work, site improvements and parking. Each component gets its correct, shorter IRS recovery period instead of defaulting to the building's 27.5- or 39-year life.

Why That Matters for Year One

Under current bonus depreciation rules, every component with a recovery period of 20 years or less can be deducted in full, immediately. So the real question for any property is what share of its cost ends up in those shorter buckets. That share drives the first-year benefit, and it's specific to the property: its type, its finishes and its age.

CHAPTER 3

How This Plays Out in Commercial Real Estate

Which schedule a building lands on depends on **its use**.

HOW THE IRS TREATS EACH USE



Apartments and Rental Homes

At least 80 percent of the rent comes from units people live in. Single-family rentals, townhomes and apartment buildings usually land here.

27.5 Years



Offices, Stores and Warehouses

Buildings rented for business use are nonresidential real property. Parts a study pulls out can still go on shorter schedules.

39 Years



Mixed Use

Judged as one building. If more than a fifth of the rent comes from the commercial space, the whole building moves to 39 years.

27.5 or 39



Hotels and Short Stays

Where more than half the rooms are rented short term, it is not housing to the code, so it's treated as nonresidential.

39 Years

Source: [26 U.S.C. §168\(c\) and \(e\)\(2\)](#).

The Shell Is Still Most of the Cost

For most commercial and residential real estate, the building shell, the part that can't be reclassified, is still **the majority of the cost**. A cost segregation study typically moves a meaningful minority of total basis into the faster 5-, 7- and 15-year buckets; the rest stays on the standard schedule.

Real, Not All-or-Nothing

That's still a real, front-loaded benefit, just not an all-or-nothing one. And the standard schedule the rest stays on follows use: an apartment community is commercial real estate to an investor, but the code puts it on the residential clock.

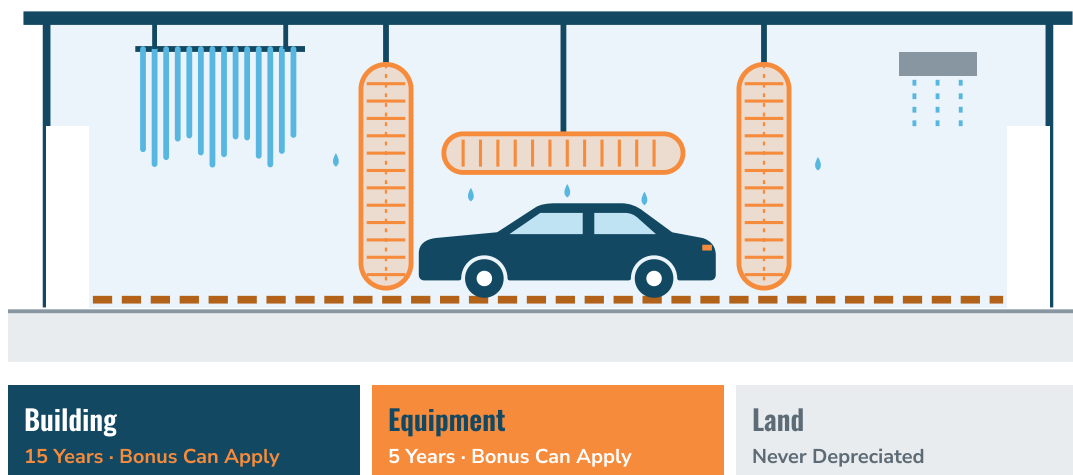
CHAPTER 4

Why Some Properties Are Treated Differently: The Car Wash Example

Not every building is classified the same way. Car washes are a clear example of the exception, not the rule.

WHAT EACH PART OF A CAR WASH IS TO THE IRS

Building and Equipment: 20 Years or Less, So Bonus Depreciation Can Apply



Generic diagram for illustration, not a specific property. Building: IRS asset class 57.1. Equipment: asset class 57.0 (Rev. Proc. 87-56, as quoted in *Iowa 80 Group v. IRS*).

The Building: 15-Year Property

Under IRS asset classification rules, a **car wash building itself is already categorized as 15-year property**, not the 39-year life that applies to most commercial buildings.

The Equipment: Short-Life From Day One

Most of what you're actually paying for in a car wash isn't the building at all. It's the **tunnel equipment, conveyors, dryers and water-reclamation systems**, all already short-life, bonus-eligible components.

Put those two together, and **a large share of a car wash's cost can qualify for an immediate, first-year write-off**: a larger outcome than a typical commercial building, for structural reasons specific to that asset type.

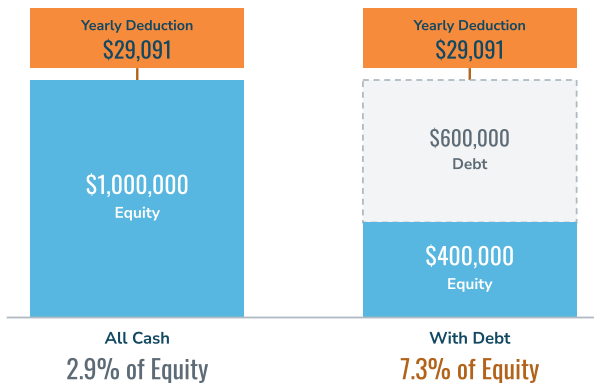
CHAPTER 5

The Leverage Advantage: Why Debt Makes This Better, Not Worse

Depreciation is calculated on a property's **full cost basis, including the part financed by debt**, not just the cash equity put in.

SAME PROPERTY, SAME DEDUCTION, DIFFERENT EQUITY

A \$1,000,000 Property, \$800,000 of It Building



WITH DEBT, PER DOLLAR INVESTED

2.5× The Deduction

Same \$29,091, Measured Against \$400,000 Instead of \$1,000,000

Illustrative, straight-line only: $\$800,000 \div 27.5$ years, before any study or bonus.

The Lender Owns None of It

A lender who finances part of a purchase has no ownership stake, so they have no claim to any portion of the depreciation deduction. That deduction belongs entirely to the equity holders, the investors who actually own the property.

So the Same Deduction Goes Further

The more a deal is financed with debt, the larger the depreciation benefit becomes **relative to the equity dollars actually invested**, because that larger total basis is still written off entirely on behalf of a smaller equity base.

WHERE THIS APPLIES AT PPR

PPR Keystone Housing Growth Fund

The fund holds its build-to-rent communities directly, so investors share in the depreciation, reported on a K-1. What you can use depends on your tax situation.

[Learn About the Fund →](#)

The limits still apply. As a fund investor you can generally use losses only up to your basis and the amount you have at risk, and a passive loss still needs passive income to offset. Your K-1 and your CPA decide what is usable in a given year.

CHAPTER 6

The Caveats

Accelerated depreciation is a real benefit with real limits. Three to keep in mind.



This Offsets Passive Income, Not Everything

Unless you qualify as a Real Estate Professional under IRS rules, depreciation from a passive real estate investment generally can't be used against W-2 wages or active business income.

In the code: [26 U.S.C. §469](#)



It's Not a Permanent Write-Off

When a property eventually sells, this benefit is “recaptured” and taxed, often at a different rate than ordinary capital gains.

In the code: [26 U.S.C. §1245](#) and [§1\(h\)](#)



Timing Matters

The benefit is tied to when a property is acquired and placed in service: a deal that closes late in the year captures less first-year depreciation than one that's been running since January.

In the code: [26 U.S.C. §168\(d\)](#)



This is general education, not individualized tax advice. Every investor's situation is different. Consult your own tax advisor.



BEFORE YOU INVEST

Common Questions

Using the Deduction

Can depreciation offset income from my job?

Generally no, unless you qualify as a Real Estate Professional under IRS rules. For most investors, it offsets passive income only.

What happens to a loss I can't use this year?

It generally carries forward to future years and can be released when you sell your entire interest. For many investors, the benefit shows up at exit rather than every April.

Does this work the same in a retirement account?

Generally no. Inside a self-directed IRA that holds a leveraged real estate investment, depreciation has to be figured on the slowest method, with no bonus depreciation, so the strategies in this guide do very little there. It's worth knowing before you choose which account to invest from.

What happens to the depreciation benefit if I sell?

Some of it is recaptured and taxed at the time of sale. It's often better thought of as a deferral than a permanent write-off.

How the Benefit Works

What does a cost segregation study actually do?

An engineering-based study breaks a property's total cost into components: land, the building shell, and then everything else, like flooring, fixtures, certain electrical and plumbing work, site improvements and parking. Each component gets its correct, shorter IRS recovery period instead of defaulting to the building's 27.5- or 39-year life.

Does leverage really change how much I benefit?

Yes. Depreciation is based on the property's full cost, debt included, but the deduction flows only to equity holders. More leverage generally means a larger benefit relative to the equity actually invested.

Why do car washes get a bigger benefit?

Because of how the tax code classifies car wash buildings and equipment: the building itself qualifies for a shorter recovery period than most commercial property, and the equipment inside was already short-life to begin with.

Is this the same for every fund or property?

No. The benefit depends on a completed cost segregation study and the specific property's acquisition and placed-in-service timing. Figures should always be treated as estimates until that study is complete.

WHERE THIS APPLIES AT PPR

Two Ways PPR Invests in Real Property

BUILD-TO-RENT COMMUNITIES

PPR Keystone Housing Growth Fund

The fund holds its rental-home communities directly, so investors take a share of the depreciation that comes with them, reported on a K-1. What you can use depends on your tax situation.

pprcapitalmgmt.com/ppr-keystone-housing-fund →

EXPRESS CAR WASHES

PPR Opportunity Fund II

Open to qualified purchasers only, the fund builds and owns car washes on the standardized Tommy's Express model: the asset type Chapter 4 describes.

pprcapitalmgmt.com/opportunity-fund →

Talk It Through With Our Team

Have a question about how depreciation works in a fund, or which PPR funds pass it through to investors? Our Investor Relations team can walk you through it. For how it applies to your own taxes, consult your tax advisor.



Book a call

pprcapitalmgmt.com/schedule



Call us

(877) 395-1290



Ready to get started?

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Sources. 26 U.S.C. §§168, 469, 465, 1245 and 1(h); IRS Publications 527 and 946; IRS Notice 2026-11; Rev. Proc. 87-56, asset classes 57.0 and 57.1, as quoted in *Iowa 80 Group v. IRS* (8th Cir. 2005).



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