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**Executive
Insights**



5 Signs Your Rental Property Is Prime for a Cost Segregation Study

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Not every property qualifies for a cost seg study — but many owners miss the signs that theirs does. Here's how to know when it's time.

Every Property Event Should Trigger a Cost Segregation Evaluation

Most investors understand that cost segregation can accelerate depreciation, boost cash flow, and improve overall tax planning. What fewer investors recognize is when to revisit the conversation. Cost segregation is not a “one-time decision.” It's a lifecycle tool — something you evaluate whenever the property changes or your tax picture changes. When a building is placed in service, improved, renovated, repositioned, or approaches a transition point like disposition, those events should immediately prompt one question: “Is now the right time to evaluate cost segregation feasibility?” This is not about assuming your property qualifies or doesn't qualify. It's about recognizing that certain triggers naturally signal a good moment to analyze the opportunity — whether for this year's tax return or for a future §481(a) adjustment using Form 3115.

Here are the **five clearest signs** your rental property should be reviewed for a potential cost segregation study.

Sign #1: You Placed a Property in Service — A Universal Trigger for Evaluation

Every property placed into service should automatically prompt a cost segregation feasibility review.

This includes:

- A new rental acquisition
- A property converted from personal use to rental
- A short-term rental beginning operations
- A multifamily asset entering its first lease-up cycle
- A commercial property starting business use

Why? Because this is the cleanest point in the property's lifecycle. The components are intact, the documentation is fresh, the structure hasn't changed, and your depreciation schedule is just beginning. Even if you ultimately decide not to complete the study this year, starting with a feasibility review sets the foundation for future planning. The evaluation, not the outcome, is what matters.

Sign #2: You Completed Renovations, QIP, or Capital Improvements

Anytime you improve a property — whether lightly or significantly — you should revisit depreciation. What counts as an improvement trigger?



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Practically everything:

- Interior remodels
- Flooring replacements
- Kitchen or bathroom updates
- Lighting upgrades
- Electrical or plumbing modifications
- Amenity or common-area improvements
- Buildouts or expansions
- Parking lot or exterior enhancements
- New accessory structures

Improvements reshape the building's asset profile — and with them, your opportunities.

QIP: The Most Powerful Improvement Signal

Interior improvements to a nonresidential building may create Qualified Improvement Property (QIP).

QIP:

- Has a 15-year recovery period
- Qualifies for bonus depreciation
- Frequently represents large spending allocations during renovations
- Can dramatically amplify the benefit of a cost segregation study

QIP alone is often a sufficient reason to trigger a feasibility review.

Improvements Also Trigger PAD Opportunities

When you remove or replace components — flooring, lighting, cabinets, partitions, wiring, plumbing lines — you may qualify for **Partial Asset Disposition (PAD)**, allowing you to write off the remaining basis of the assets you disposed of.

PAD pairs naturally with cost segregation because:

- Cost seg identifies the replaced components
- PAD allows disposal of their remaining basis
- The combination creates both immediate and ongoing benefits

Any improvement should instantly prompt the thought: **“It’s time to revisit depreciation.”**

Sign #3: You’re Entering or Completing a Value-Add Phase

A value-add project is one of the most common and most impactful signals to evaluate cost segregation feasibility.

Whether it’s a light refresh or a full repositioning, value-add activity almost always creates:

- New short-life assets eligible for accelerated depreciation
- Removed long-life assets eligible for PAD
- Strong documentation for engineering review
- The need for updated depreciation schedules
- Expanded future potential for 1245X at disposition

Examples of value-add triggers:

- Unit renovations
- Amenity modernizations
- Exterior facelifts – Not a good candidate for cost seg
- Energy-efficient upgrades
- Reconfigured layouts
- Structural changes or additions
- Multi-year renovation plans

Value-add cycles are natural pivot points where depreciation strategy should be reevaluated. The smartest investors do this before the project starts, after it ends, and sometimes both — because each phase creates different tax opportunities.

Sign #4: Your Tax Position Has Shifted — and Depreciation Strategy Matters More Than Ever

Even if your building hasn’t changed, your tax situation may have — and that alone is a major reason to evaluate cost segregation.

Common tax-based triggers include:

- A strong income year where deductions are more valuable
- A year with gains from other investments
- Adding new assets to your portfolio
- Repositioning your entity structure
- Planning for a §481(a) catch-up next year



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- Preparing for refinance? Refinancing doesn't change basis, not sure how this applies
- Looking ahead to a sale or strategic exit
- Transitioning into or out of more active involvement

Because the IRS allows you to take missed depreciation through a future §481(a) adjustment, timing becomes strategic. This means cost segregation isn't just about the building — it's about what's happening in your tax life. Sometimes the right time to complete a study isn't tied to the property at all. It's tied to you.

Sign #5: You've Never Completed a Study — and You're Leaving Patterns Untapped

Some properties don't need a dramatic trigger event. They simply reach a point where the value is clear.

Common examples include:

- Properties held for several years with no prior study
- Buildings with significant interior components
- Assets with high non-structural value (e.g., hospitality, office, retail, STRs)
- Properties that have already begun cycling through improvements
- Buildings preparing for sale

Owners often underestimate how much of their property qualifies for shorter depreciable lives — especially in rental properties with complex interior components. If you've never evaluated the building through an engineering lens, you may simply be depreciating long-life assets that don't need to stay long-life.

Why Waiting Too Long Can Leave Money on the Table

While depreciation is recoverable through a 3115 and §481(a) adjustment, improper timing can still reduce benefits.

Waiting too long can:

- Delay deductions you could have used sooner
- Limit the usefulness of PAD if old components are already removed
- Reduce clarity during heavy improvement years
- Leave engineering values undocumented heading into disposition
- Make 1245X analysis more complex at sale

Cost segregation is ultimately about aligning timing with strategy, not rushing to capture a deduction. When the signs are present, evaluating the opportunity early creates cleaner documentation, stronger lifecycle support, and better long-term planning.

If Any of These Signs Apply, It's Time to Evaluate Cost Segregation

Cost segregation isn't something you do once. It's something you consider every time your property or tax position changes.

If you've:

- Placed a property in service
- Completed improvements or QIP
- Entered a value-add cycle
- Experienced a shift in taxable income
- Owned the property long enough to accumulate improvements

...then it's time to take a closer look. Not every evaluation results in a study — but every evaluation strengthens your strategy.