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Executive Insights



How Developers Can Use Cost Segregation to Attract and Retain Investor Capital

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Investors want certainty and after-tax transparency. Demonstrating accelerated depreciation in your offering materials can make your next raise easier.

Introduction: In Today's Capital Market, Tax Transparency Is a Competitive Advantage

Raising equity for development projects has always required a strong foundation: a compelling business plan, a credible team, and a financial model that demonstrates clear returns. But in today's environment — with higher capital costs, more selective investors, and tighter underwriting — developers need something more.

They need a way to show investors not just gross returns, but after-tax outcomes, backed by defensible analysis.

This is where cost segregation becomes more than a tax tool. It becomes a capital-raising strategy.

Investors want certainty, clearer downside protection, and evidence that the sponsor understands how to maximize first-year cash flow. When you integrate accelerated depreciation into your offering documents, you do more than run a model — you demonstrate sophistication, alignment, and proactive asset stewardship.

As a firm that has supported developers and institutional investors across thousands of projects, I've seen one thing repeatedly:

Projects that present tax-forward returns attract capital faster — and with less friction — than those that treat depreciation as an afterthought.

Here's how developers can use cost segregation strategically to strengthen investor confidence and raise capital more effectively.

1. Cost Segregation Strengthens IRR and Cash-on-Cash Projections

Every investor, from high-net-worth individuals to family offices to institutional LPs, evaluates deals through a similar lens:

- What is the return profile?
- When do the returns materialize?
- How is risk mitigated?
- And what does the after-tax picture look like?

Developers who incorporate cost segregation early can meaningfully improve both projected IRR and cash-on-cash returns by accelerating depreciation into the earliest years of the hold.



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Why This Matters to Investors

Most investors evaluate deals using:

- Levered IRR
- Equity multiple
- Year-1 and Year-2 cash-on-cash
- Tax-adjusted returns
- Output vs. preferred return structure
- Impact on distributions
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Accelerated depreciation directly enhances these metrics by:

- ✓ Increasing first-year tax deductions
- ✓ Improving net cash flow and taxable losses
- ✓ Allowing investors to offset passive income
- ✓ Reducing effective tax drag during early operations

This creates a stronger early-stage return profile, which is the period where investors are most sensitive to risk.

Why Developers Benefit

For developers, the impact is twofold:

1. Stronger projected returns = easier capital raising
2. Cleaner alignment with investor tax strategy = higher investor retention for future deals

Cost segregation doesn't change the physical building — it changes how you communicate opportunity.

You can have the best cost segregation strategy in the world, but if it isn't communicated clearly, it doesn't reduce investor hesitation.

When developers integrate tax-forward messaging into offering materials, the project stands apart immediately.

Where to Include Accelerated Depreciation in Investor Materials

Investor Deck / Pitch Deck

- Summary of projected depreciation
- First-year accelerated depreciation estimate
- Impact on cash-on-cash
- Visualization of tax-adjusted IRR vs. baseline IRR
- Simple lifecycle tax strategy (acquisition → improvements → exit)

PPM (Private Placement Memorandum)

- Tax benefits section including expected allocations
- Clear disclosure of accelerated depreciation methodology
- Notes on bonus depreciation eligibility
- Outline of sponsor strategy regarding improvements or QIP

Financial Model

- Separate line item for accelerated depreciation
- Sensitivity analysis: with/without cost segregation
- Demonstration of impact on distributions under preferred return waterfalls
- Tax-adjusted cash flow tables for LP review

Capital Raise Landing Page / Data Room

- One-page overview of projected depreciation benefits
- FAQs investors commonly ask
- White-labeled or co-branded study summary (if desired)

Why This Works

When investors see accelerated depreciation:

- Quantified
- Visualized
- Engineered
- And integrated into the model



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...it reduces uncertainty and increases perceived sponsor competency.

Investors want confidence that the sponsor is maximizing all levers available — not just operational ones, but tax-related ones as well.

Within 45 days, the developer had commitments covering 100% of the raise, compared to the similar project they raised for the year prior, which took nearly three months. The difference wasn't the deal. It was the clarity of the tax strategy.

Conclusion: Tax Strategy Isn't an Afterthought — It's a Capital-Raising Tool

Developers who integrate accelerated depreciation into offering materials send a powerful message to investors:

- We understand the tax implications of your capital.
- We help you plan ahead, not after the fact.
- We work with you to build tax strategy into the project's lifecycle.
- We're giving you after-tax transparency from day one.

Cost segregation strengthens financial projections, enhances investor confidence, shortens raise timelines, and increases the likelihood that investors will return for your next deal.

If you're interested in using tax-forward planning to accelerate capital raising, we've created a practical, developer-focused guide that walks you through the entire process.

Download The Developer's Tax Strategy Blueprint

A step-by-step resource for integrating cost segregation into investor materials, capital planning, and project underwriting.