



# CAPITAL VIEWS



## PATTERSON PERSPECTIVE WHAT'S NEW?

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I caught up with a friend a week or so back, a younger man who I've known for probably 15 years. He made a comment about there being a lot going on in the world right now, and that it was pretty worrisome. My mom told me the same thing. In response, I told both of them that while that may be true, I don't think there's been a time in my life when there wasn't a lot of crazy stuff going on in the world. Some things were different years ago and some were the same, but at the time those past events were happening, they seemed equally as capable of causing problems then as the current events seem capable of causing problems now. Like the adage says, the more things change, the more they stay the same.

Tying that into our industry, here's the latest that we're seeing from some of the key issues:

### **TARIFFS**

In early April, it felt like tariffs would be the big story for our industry this year. Then, by early July, tariffs felt like a non-event, as at least up to that point there had been no noticeable impact on our industry. This can of course change again quickly, but for now, very few people are spending much time thinking about tariffs.

### **CONSTRUCTION COSTS**

We still hear of certain transactions being impacted by rising costs, but more often than not, what we hear

across the board is that costs are holding steady, or more frequently that costs have modestly declined. Let's hope this remains the case through the end of the year.

### **INTEREST RATES**

I wouldn't want to describe Treasury yields as high, but compared to what most of the market had been expecting earlier this year, they feel that way. And they're definitely having an impact on the sales side of our business, as long-term borrowing rates have kept buyer cap rate targets higher than the level most sellers are willing to accept. My belief is that even a modest reduction in long-term Treasury rates (to say 4.00% for the 10-year) will cause sales volumes to increase significantly.

### **PROPERTY SALES**

Following the above comment, sales are anemic for multifamily and industrial. Office sales seem to be picking up, but most buildings (not all) are value-add, deep discount transactions.

### **DEBT**

Debt is available from all sectors (i.e., banks, life companies, debt funds, CMBS, private lenders, etc.). It's fair to describe terms lenders offer as pretty good if you're a borrower, and it's fair to describe spreads as very aggressive. A noticeable exception – there is still very little debt available for office transactions, in many cases resulting in buyers paying all

cash for office properties, or needing the current lender to provide financing to facilitate the sale.

#### **NEW DEVELOPMENT**

New development is focused still, as it has been the prior several years, mostly on residential and industrial. It is getting easier to capitalize, but don't confuse "getting easier" with "it's easy" – it's not. It's still very challenging to find equity capital. But the fact that debt has become more aggressive, combined with improving supply conditions and, in some cases, rent fundamentals, is helping. Today, the best sponsors, with well underwritten deals in good locations, where rents and sales prices are supported by existing comps, have a better than 50/50 shot of finding equity. That was not the case a year or more ago.

#### **OFFICE RECOVERS**

I was talking recently with a friend who runs a private equity firm and he said, "I feel more convicted about office leasing than I do industrial leasing." His point being that although he doesn't have a lot of office exposure, the buildings that he owns are all performing very well, compared to some of his "in-town" industrial investments, where leasing isn't as active. His sentiment seems to be common with "sponsors" – those leading the effort to purchase office product. But that sentiment hasn't followed as much with lenders (see earlier comment) or even with equity investors. Although the latter group is changing and I think will become more active with office investments through the balance of this year.

#### **SENIOR HOUSING**

An investor made a comment to me a few weeks back, saying, "Senior housing is the new office." His point was that like office, senior housing performance and consequently pricing fell dramatically after COVID, but the strong and

inevitable demographics are causing a lot of the larger institutions to rush to this product type, seeking to re-cap existing, struggling capital stacks and take advantage of the value increase. Even new development is occurring, as senior housing is seeing good rent growth.

#### **THE SOUTH IS POPULAR**

We can't fight demographics, which remain very strong for the southern part of the country. Most capital has a strong interest in investing in the "smile states," a good position I'm sure for most of the readers of this newsletter.

#### **A FURTHER COMMENT ON EQUITY INVESTORS**

The large, "blue chip" institutions appear to mainly be focusing on acquisition opportunities. Meaning new development, not so much. Conversely, the mid-level private equity funds, family offices and high net worth individuals are more willing to entertain capitalizing new development. I don't think we'll see the larger institutions move back to new development until Treasury yields decline and acquisitions become less attractive.

#### **AND FINALLY**

Halfway through the year, the capital markets remain challenging, only slowly improving from a hard last three years. That said, I am pretty optimistic about how our firm is performing, with strong deal inflow and an ability to get most of what we're taking on closed. Things seem to take forever, but I think I've figured out the secret to success in our business and here it is:

Work hard. Provide good service. Be nice. Be creative. Be responsive. Focus.

Nothing new there.



**Since inception, Patterson has closed more than  
530 transactions encompassing over \$12.2 billion  
in capital placement.**



# RECENT TRANSACTIONS



CLIENT	ELMINGTON RESIDENTIAL
PROJECT	HARDIN VALLEY TOWNHOMES
MARKET	Knoxville, TN
TYPE	Build-for-Rent (117-Units)
ASSIGNMENT	Construction Equity



CLIENT	BROOK FARM GROUP
PROJECT	THE SINCLAIR AT ELLENTON
MARKET	Ellenton, FL (Sarasota MSA)
TYPE	Apartments (217-Units)
ASSIGNMENT	Construction Debt and Preferred Equity



CLIENT	TWO CAPITAL
PROJECT	KASA CAPITOL HILL
MARKET	Nashville, TN
TYPE	Short-Term Rental (55-Units)
ASSIGNMENT	Permanent Debt



CLIENT	THIRD & URBAN
PROJECT	NORTHBEND
MARKET	Atlanta, GA
TYPE	Covered Land (29.81 Acres)
ASSIGNMENT	Senior Debt



CLIENT	SOUTH STREET PARTNERS
PROJECT	OCEAN PINES
MARKET	Kiawah Island, SC
TYPE	Condominiums (69-Units)
ASSIGNMENT	Construction Debt



CLIENT	NEWSTAR
PROJECT	CHARLOTTE PORTFOLIO (PLEASANT GROVE)
MARKET	Charlotte, NC
TYPE	Build-for-Rent (58-Units)
ASSIGNMENT	Construction Debt & Equity





**CLIENT** NEWSTAR  
**PROJECT** OLD WINDER HIGHWAY  
**MARKET** Braselton, GA (Atlanta MSA)  
**TYPE** Build-for-Rent (133-Units)  
**ASSIGNMENT** Construction Debt



**CLIENT** NAVY YARD CHARLESTON  
**PROJECT** NAVY YARD (STOREHOUSE 8 & 9)  
**MARKET** Charleston, SC  
**TYPE** Mixed-Use (±105,000 SF)  
**ASSIGNMENT** Preferred Equity



**CLIENT** EAST WEST PARTNERS  
**PROJECT** WEST END APARTMENTS  
**MARKET** Edwards, CO  
**TYPE** Apartments (275- Units)  
**ASSIGNMENT** Construction Equity



**CLIENT** PORTMAN HOLDINGS  
**PROJECT** MEADOW GLEN VILLAGE  
**MARKET** Atlanta, GA  
**TYPE** Apartments (332-Units)  
**ASSIGNMENT** Construction Debt & Equity



**CLIENT** MILEPOST DEVELOPMENT  
**PROJECT** DREW VALLEY TOWNHOMES  
**MARKET** Atlanta, GA  
**TYPE** Single-Family Townhomes (43-Units)  
**ASSIGNMENT** Construction Debt & Equity



**CLIENT** EAST WEST PARTNERS  
**PROJECT** MARIN AT WATERFRONT  
**MARKET** Daniel Island, SC  
**TYPE** Apartments (128-Units)  
**ASSIGNMENT** Construction Debt & Pref Equity



**CLIENT** APPIAN INVESTMENTS  
**PROJECT** MAGNOLIA GROVE  
**MARKET** Greenville, SC  
**TYPE** Industrial (182,000 SF)  
**ASSIGNMENT** Construction Equity



**CLIENT** TRUX  
**PROJECT** 5758 OLD HWY 78  
**MARKET** Olive Branch, MS (Memphis MSA)  
**TYPE** IOS (15 Acres)  
**ASSIGNMENT** Bridge Debt



# WHAT THE ONE BIG BEAUTIFUL BILL ACT MEANS FOR CRE: TAX BREAKS, BONUS DEPRECIATION & MORE

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*Sweeping tax reform brings major changes—and big benefits—for developers, investors, and affordable housing stakeholders.*

Signed into law on July 4, 2025, the One Big Beautiful Bill Act ("OBBBA") is the most significant tax overhaul since The Tax Cuts and Jobs Act of 2017 ("TCJA")—and it has far-reaching implications for commercial real estate. With the CRE sector still recalibrating from years of post-pandemic dislocation, hybrid work disruption, and capital cost and building cost volatility, OBBBA introduces a welcome mix of permanence, predictability, and incentives.

Here are the most impactful changes CRE investors and developers should know.

## **FULL BONUS DEPRECIATION IS BACK AND NOW PERMANENT, AND SECTION 179 EXPANDS**

OBBBA restores full 100% bonus depreciation for qualified property placed in service after January 19, 2025—and makes it a permanent feature of the tax code.

Applies to:

- Residential: appliances, furniture, carpeting, computers
- Non-residential: plumbing, fire protection, electrical, parking lots, landscaping, exterior lighting

In addition:

- Section 179 expensing rises to \$2.5M, phased out over \$4M.
- Both depreciation methods can be used together to optimize tax benefits.
- Bonus depreciation can create net losses, unlike Section 179.
- Cost segregation studies are now even more valuable.

Takeaway: Both provide a powerful capital recovery mechanism that accelerates cash flow thereby enhancing IRRs.

## **MORE INTEREST EXPENSE NOW DEDUCTIBLE**

OBBBA rolls back a key limitation from the TCJA, restoring the use of EBITDA instead of EBIT when calculating interest deductibility.

For leverage-heavy industries like CRE, this means greater deductibility of interest expense, and enhanced after-tax cash flow.

## **OPPORTUNITY ZONES: NOW PERMANENT**

The Qualified Opportunity Zone ("QOZ") program is now permanent (no more 2026 sunset), providing more certainty to long-term CRE investors.

In addition to making QOZ's permanent, other key enhancements/changes include:

- The capital gain deferral shifts from a fixed date to a "rolling"

five-year deferral. The deferred gain must be recognized upon sale or after five years, whichever comes sooner.

- The basis step-up is standardized: 10% for standard investment and 30% for investment in Qualified Rural Opportunity Funds.
- The 10-year tax-free gain exclusion on QOZ investments remains intact for investments held that long.
- Stronger reporting and compliance and penalty metrics.

Key dates to keep in mind:

- The new framework for QOZ investments begins January 1, 2027.
- Existing 2017 QOZ rules remain through Dec 31, 2026.
- Governors may designate new QOZs starting July 1, 2026.
- New QOZ designations take effect on Jan. 1, 2027, and will be redesignated every 10 years thereafter.

## **LOW-INCOME HOUSING TAX CREDIT ("LIHTC") EXPANSION**

To address the ongoing affordability crisis, OBBBA expands the LIHTC:

- Increases 9% credit allocation by 12.5% annually from 2025 to 2029 making more credits available for qualifying projects.
- Lowers the bond-financing requirement from 50% to 25% for 4% credits. This will make credits easier to secure without as much up-front bond financing.

This should make additional affordable multifamily development more feasible, opening the doors to more creative financing structures involving housing agencies and syndicators and hopefully drawing more institutional equity into this space.

## **ENERGY EFFICIENCY TAX CREDITS SUNSET IN 2026**

Sections 179D and 45L will phase out after June 30, 2026:

- 179D: deductions per sq. ft. for energy-efficient commercial buildings
- 45L: credits for energy-efficient residential construction

This could accelerate development timelines to capitalize on the remaining window.

## **BOTTOM LINE: A WIN FOR CRE**

Overall, the OBBBA delivers a net positive outcome for the CRE sector. Its mix of permanence, predictability, and incentive layering creates a powerful framework for investment, particularly for developers and investors navigating today's still-recovering market.

Hopefully, this summary helps clarify the most relevant real estate provisions in the OBBBA and gives you a framework for digging deeper into the areas that may affect your own strategy. While every situation is different, many of these changes offer clear advantages to our industry moving forward.





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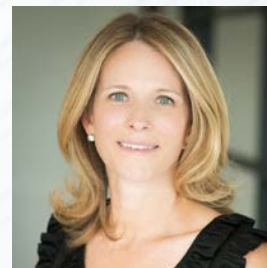
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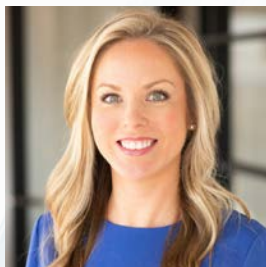
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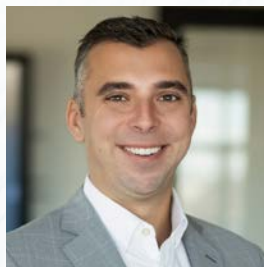
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