

CASE STUDY



Cost Segregation

With the acquisition of Marshall & Stevens' Cost Segregation business in December 2006, CBRE now has a team focused on Cost Segregation analysis, led by Doug Haney. In late 2006, the group's premier valuation capabilities helped generate nearly \$163 million in additional tax savings for The Irvine Company.



CHALLENGE

The Cost Segregation group operates as part of our national Valuation & Advisory group under Doug Haney, and has the potential to benefit customers across the entire CBRE platform, including those in Asset Services, Brokerage, Global Corporate Services, Investment Properties and Valuation.

Engineering-based Cost Segregation analysis delays federal tax payments and increases net cash flow for property owners and occupiers by identifying property improvements that are eligible for accelerated depreciation under the Federal tax code. This is a highly specialized service that can potentially save a customer \$80,000 to \$160,000 of tax benefits per \$1 million of building costs.

In late 2006, The Irvine Company—a 140-year-old privately held real estate investment firm—retained CB Richard Ellis' Cost Segregation group. The Irvine Company sought to increase its cash flow by quickly obtaining a detailed, defensible and affordable Cost Segregation study of one of its property portfolios. CBRE was challenged with inconspicuously accessing all tenant spaces and quickly performing the accelerated-depreciation analysis.

SOLUTION

In late 2006, The Irvine Company notified each of its office, residential and retail tenants that CBRE would be visiting their spaces to perform Cost Segregation analysis. Subsequently, CBRE Cost Segregation engineers began to conduct a careful review of each space, without interrupting property management, tenants or residents.

CBRE engineers visited all eight sites—Irvine Spectrum, Crystal Cove Promenade, The Market Place III, Irvine Center Towers, One American Plaza, Newport Gateway, Villa Dorado at Mission Valley and Torrey Villas Apartment Community—to quantify each property's short-life assets. They studied the buildings' walls, floors, ceilings, partitions, plumbing, electrical, lighting, telecommunications, and heating and cooling systems to identify which specific components qualified for depreciation over five, seven and 15 years rather than 39 years, the time over which a commercial building's taxes typically depreciate.

RESULT

The CBRE team spent two months meticulously analyzing The Irvine Company's \$1.2 billion property portfolio. The information uncovered through CBRE's Cost Segregation study will save the client approximately \$162.7 million over 15 years. During the first five years, The Irvine Company will save \$92.2 million; over seven years, an additional \$2.8 million; and over 15 years, an added \$67.7 million. As a result of the successful completion of CBRE's Cost Segregation analysis, The Irvine Company recently hired the team to analyze another of its property portfolios.

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