Real Estate Development 101 & Tax Strategies

A Practical Guide for Investors and Developers

Real Estate Development 101

The Big Picture

Real estate development is the process of transforming land or existing property into higher-value, income-producing assets. Developers coordinate design, financing, construction, leasing, and operations to bring projects from vision to reality.

Why it matters: Developers profit from five wealth drivers:

1. **Cash Flow** – rental income after expenses and debt service.
2. **Equity Creation** – value at completion often exceeds cost.
3. **Appreciation** – long-term increase in property value.
4. **Depreciation** – the government pays you to own real estate.
   Bonus depreciation, you can write off up to 70% of the cost of the development against your taxes in year one.
5. **Construction**: Act as the GC and make 20% of the construction cost.
   At scale, a $20 Million project profits $4 Million.

Example: A project that costs $24M to build but appraises at $30M creates $6M of instant equity — before collecting a single rent check.

The Development Roadmap

Step 1: Find & Control Land – Confirm zoning, utilities, and demand.
Step 2: Design & Entitle – Secure approvals, finalize architecture, engineer utilities.
Step 3: Build a Capital Stack – Mix of bank financing + investor equity.
Step 4: Construct the Asset – Manage costs, schedule, and subcontractors.
Step 5: Lease or Sell – Pre-lease to tenants, stabilize operations, or sell at market value.
Step 6: Harvest Returns – Hold for long-term passive income, refinance tax-deferred, or sell for profit.

Key Takeaway: Real estate development is about creating value where it doesn’t exist today. With the right site, smart design, and disciplined execution, development offers some of the most powerful wealth-building opportunities available — combining cash flow, equity creation, and tax advantages.

How Real Estate Investors Legally Minimize Taxes

Real estate is one of the most tax-efficient asset classes when you use the rules the tax code provides. The goal is defer and reduce tax today — not evade it. Below are commonly used strategies developers use to keep more cash working in the deal.

• Defer gain with a 1031 Exchange – Reinvest proceeds from sales into like-kind property to defer capital gains.

• Accelerate write-offs with Cost-Segregation & MACRS depreciation – Break a building into components to speed up deductions.

• Use Bonus Depreciation/Section 179 – Certain equipment and improvements can be expensed immediately.

• Invest in Opportunity Zones – Reinvest gains in Qualified Opportunity Funds for deferrals and potential exclusions.

• Structure operating income for pass-through benefits (QBI/199A) – Up to 20% deduction depending on structure and income.

• Entity selection, loss harvesting & timing – Use LLCs/partnerships, manage timing of sales, and offset gains with losses.

Important Practical Notes

- Documentation is everything: exchanges, studies, and depreciation schedules must be defensible.
- Depreciation recapture can create tax on sale — most strategies defer, not eliminate tax.
- Rules change: tax law and IRS guidance evolve — always verify current limits with your tax advisor.

Disclaimer: This guide is for educational purposes only. It does not constitute tax or legal advice. Always consult a licensed CPA or tax attorney before implementing these strategies.

Bryan McAnally