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COST SEGREGATION

Cost Segregation on a Multifamily Property: A Real-World Walkthrough

By Timothy C. Franklin • April 15, 2026 • 6 min read

The Numbers People Never See

Most real estate investors know cost segregation exists. They have heard the term in a podcast or read about it in passing. What they rarely get to see is what it actually looks like when it hits a real property. A real purchase price. A real tax return.

So let us walk through one. No hypotheticals. No theoretical maximums. A real study, done on a real building, with real numbers.

This is a five-unit apartment building in San Francisco. We will call the investor J. Smith. The study was completed in May of 2025, and the numbers below come directly from the engineering analysis.

The Property

Here is what we are working with.

PROPERTY DETAILS

PROPERTY TYPE

5-Unit Apartment

LOCATION

San Francisco, CA

SQUARE FOOTAGE

6,155 sq ft

PURCHASE PRICE

\$2,250,000

ACQUIRED

May of 2025

DEPRECIABLE COST

\$1,800,000

The purchase price was \$2,250,000. When we back out the land value, the depreciable building cost comes to \$1,800,000. That is the number the IRS allows you to write off over time. The only question is how fast.

Without a cost segregation study, the answer is: not very fast at all.

What Happens Without a Study

Under standard tax rules, a residential rental property depreciates over 27.5 years using straight-line depreciation. That means you take the same deduction every single year, spread evenly across nearly three decades.

On this building, that works out to \$40,914 per year.

That is \$40,914 per year for 27.5 years. No acceleration. No front-loading. Just a slow, steady trickle that the IRS permits by default.

Most investors accept this. Their CPA files it, they move on, and they never know what they left behind.

The government gives you a choice. You can depreciate slowly over 27.5 years, or you can front-load that deduction to the year you actually need it. Most people just do not know they have the choice.

What Happens With a Study

A cost segregation study reclassifies components of the building into shorter depreciation categories. Instead of treating the entire structure as a single asset spread over 27.5 years, the engineering team goes property by property, component by component, and identifies which items qualify for accelerated depreciation under MACRS, the Modified Accelerated Cost Recovery System. Some components can be written off over five years. Others over fifteen.

On this San Francisco building, the study identified two categories of accelerated assets. Fifteen percent of the depreciable cost qualified for the five-year schedule. One percent qualified for the fifteen-year schedule. The remaining 84 percent stayed on the standard 27.5 year timeline.

Here is what that does to year one.

CATEGORY	WITHOUT STUDY	WITH STUDY
Year One Depreciation	\$40,914	\$322,368
Increased Deduction	N/A	+\$281,454
Tax Savings (37% rate)	N/A	\$104,138

Study Fee	N/A	\$4,900
Net Study Cost (after tax)	N/A	\$3,087

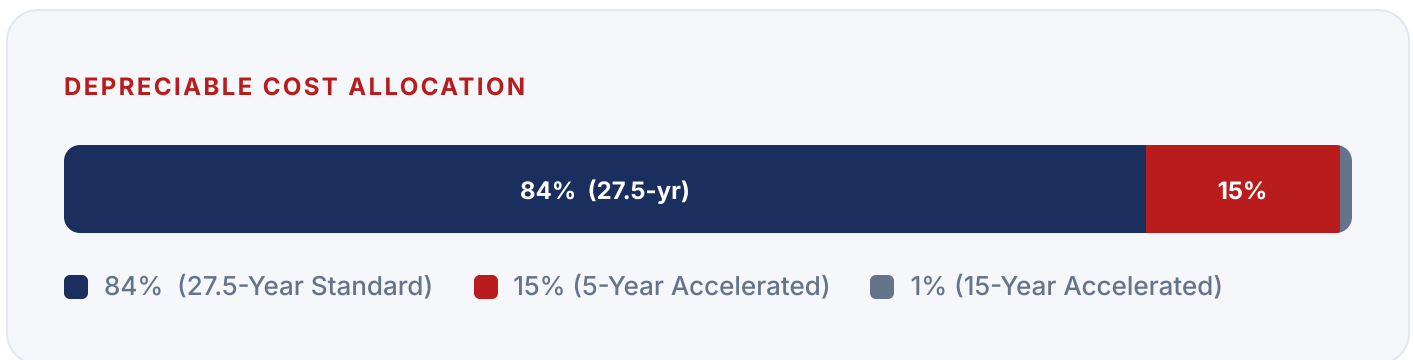
Year one depreciation goes from \$40,914 to \$322,368. That is nearly eight times what the standard method would have produced.

The increased deduction is \$281,454. At a 37 percent tax rate, that translates to \$104,138 in real tax savings in a single year.

The study cost \$4,900. After its own tax deduction, the net cost to the investor was \$3,087.

How the Building Breaks Down

Here is what the engineering study actually found when it looked at the components.



Eighty-four percent of the depreciable cost stays on the 27.5-year schedule. That is mostly the building structure itself. Walls, foundation, roof. The pieces that are genuinely long-lived.

But 15 percent was reclassified to 5-year property. On a \$1,800,000 depreciable cost, that is \$270,000 worth of assets that can be written off far faster. Things like carpet,

appliances, specialty electrical, cabinetry, and certain fixtures. Items that wear out and get replaced long before the mortgage is paid off.

And 1 percent went to 15-year property. Land improvements like landscaping and sidewalks that also depreciate faster than the building itself.

The IRS does not dispute this. It is not a gray area or an aggressive position. It is exactly what the tax code was designed to allow. The engineering process simply makes it defensible.

The Return on Investment

Let us look at the math one more time.



For every dollar spent on the study, the investor got back 34 dollars in tax savings. Not over a lifetime. Not over 10 years. In year one.

That is not a marketing number. That is the math.

And with 100 percent bonus depreciation restored by the One Big Beautiful Bill, those 5-year and 15-year assets can be taken in full in the first year. Every dollar of that \$281,454 increased deduction hits the return in the year of acquisition.

What This Actually Means for You

This was one study. One building. A five-unit apartment in San Francisco that most people would look at and say was too small to bother.

It was not too small. It generated \$104,138 in savings for a \$3,087 investment.

Now imagine a 20-unit building. Or a mixed-use property. Or a portfolio of three to five smaller properties that have never been studied. The math scales. And so does the opportunity that most investors are currently leaving on the table.

If you bought a property in the last few years and you do not have a cost segregation study on file, you are paying more in taxes than you are legally required to pay. That is not a gray area either. It is just math.

The study takes a few weeks. The savings hit your return the year you do it. And it will likely be the highest ROI conversation you have with a financial professional this year.

If you bought a property in the last few years and you do not have a cost segregation study on file, you are paying more in taxes than you are legally required to pay.

The First Step

We run a free preliminary analysis before any study is ordered. We look at your property type, your purchase price, your acquisition date, and your tax situation, and we tell you whether cost segregation makes sense and what the numbers are likely to look like.

No fee. No commitment. Just the information you need to make the right call.

If the numbers do not pencil out, we will tell you that too. We would rather lose a small engagement than put a client into something that does not serve them.

But in most cases, they pencil out very well. This one penciled out at 34 to 1.



IRS OFFICIAL REFERENCE

[How to Depreciate Property: IRS Publication 946 →](#)

IRS.gov: MACRS depreciation schedules and cost segregation reference

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See What Your Property Would Look Like

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Is Your Property a Candidate?

Find out in minutes. We model your property for free before any study is ordered.

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The Numbers at a Glance

\$104,138

Year one tax savings

34:1

Return on study fee

\$281,454

Additional deduction unlocked

\$3,087

Net cost of study (after tax)

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What Is Cost Segregation?

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