May 7, 2026

National Real Estate & Construction Market & Legislative Update

PRESENTED BY

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Agenda

- **Market Update:** Veronica Miniello – CoStar Group
- **Legislative Update:** Ryan McCormick – The Real Estate Round Table
- **A Case Study on Incorporating AI and Process Improvement in Real Estate:** Cohen & Co's Finance Transformation Team: John Cavalier, Liz Janko; Cohen & Co's Data Intelligence Services Team: Patrick Grodach, Russell Hayman
- **Qualified Opportunity Funds Update:** Angel Rice, Opportunity Zones Practice Lead, Cohen & Co
- **Top Questions from Real Estate Funds:** Asha Shettigar, REIT Practice Lead, Cohen & Co

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U.S. CRE Market Update

May 2026

Veronica Miniello
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Office Market Update

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Polling Question #1

What is the biggest challenge your firm is facing in today's CRE market?

A. *Interest rates and financing*
B. *Property valuations*
C. *Leasing and tenant demand*
D. *Regulatory/policy uncertainty*
E. *Capital availability*

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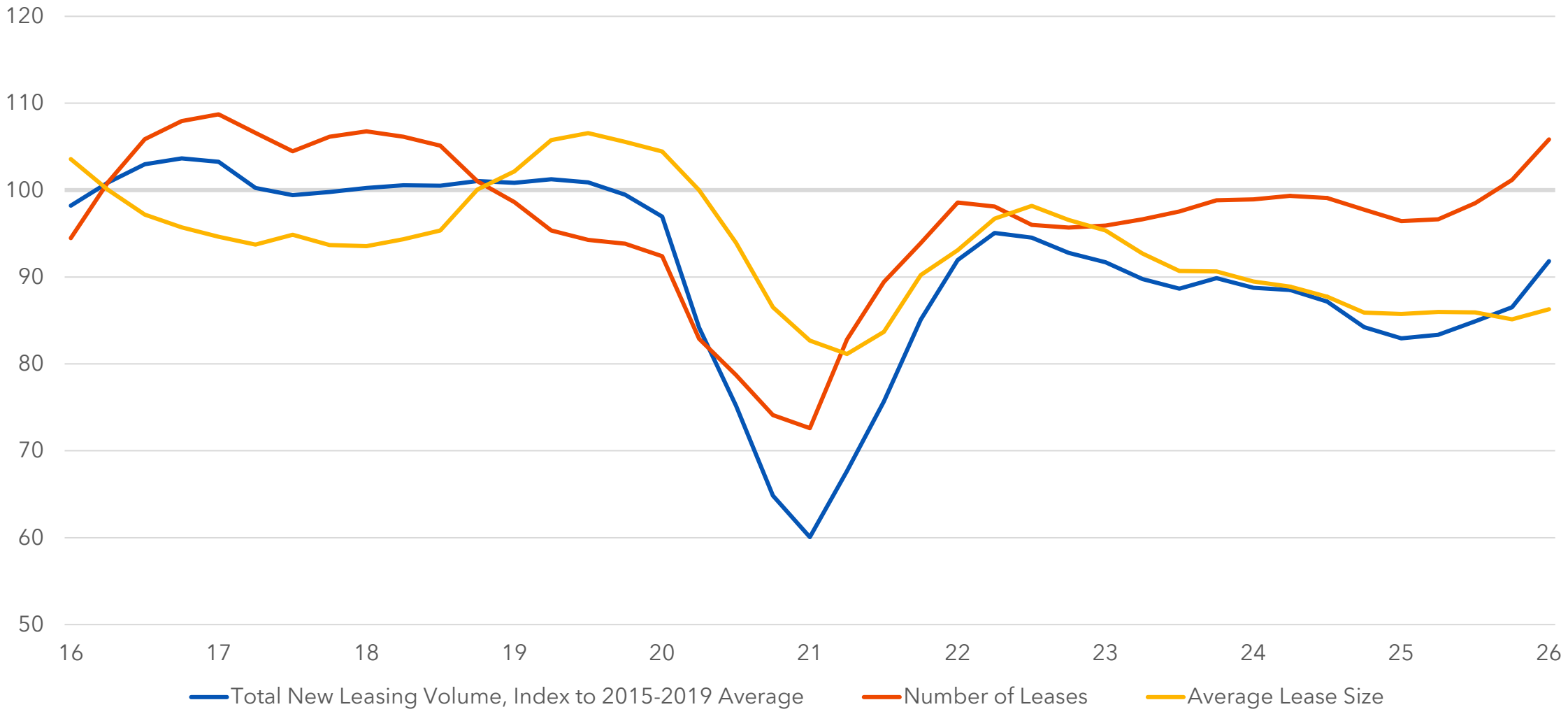
The leasing market is high-churn, small-size



Source: Bureau of Labor Statistics

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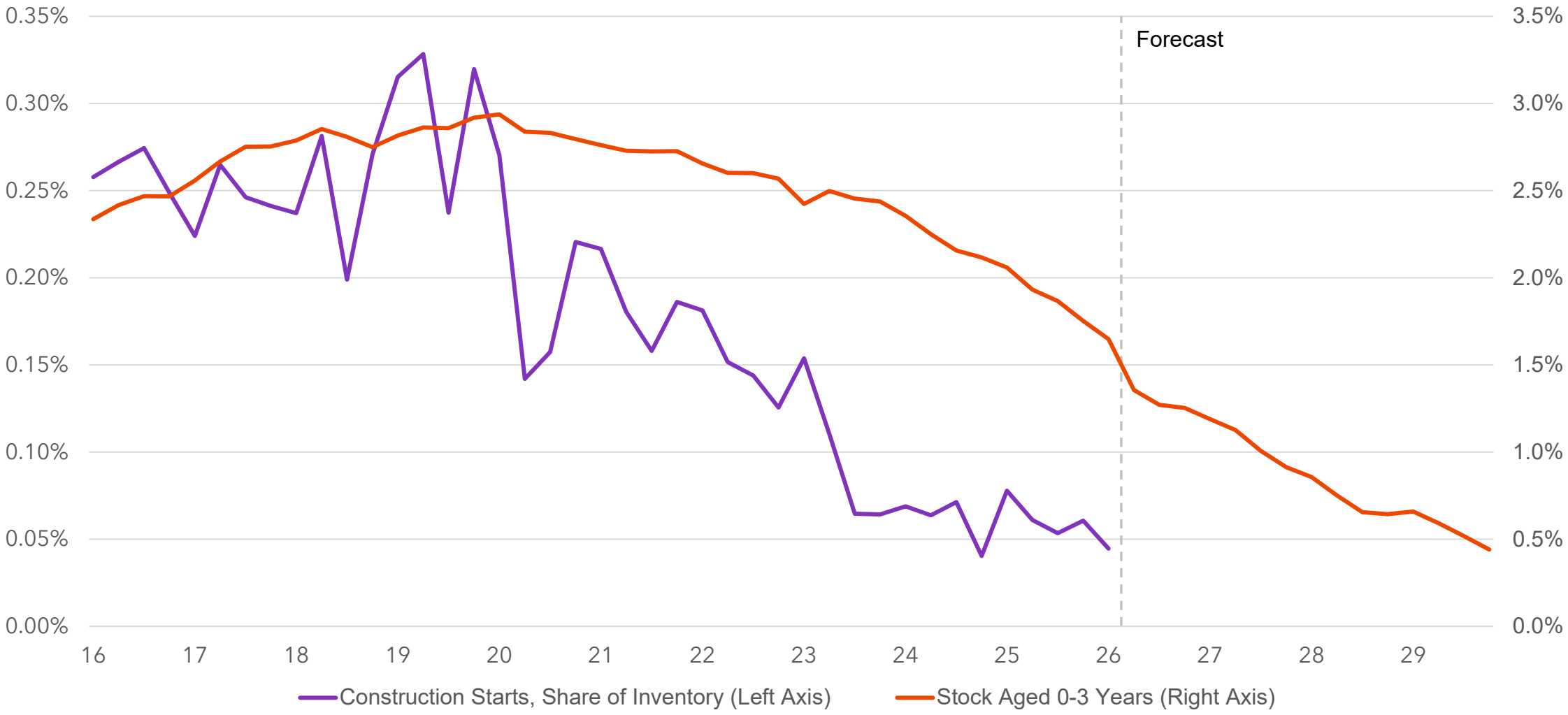
Construction starts have plummeted and stayed low, foreshadowing historically low new stock



Source: CoStar

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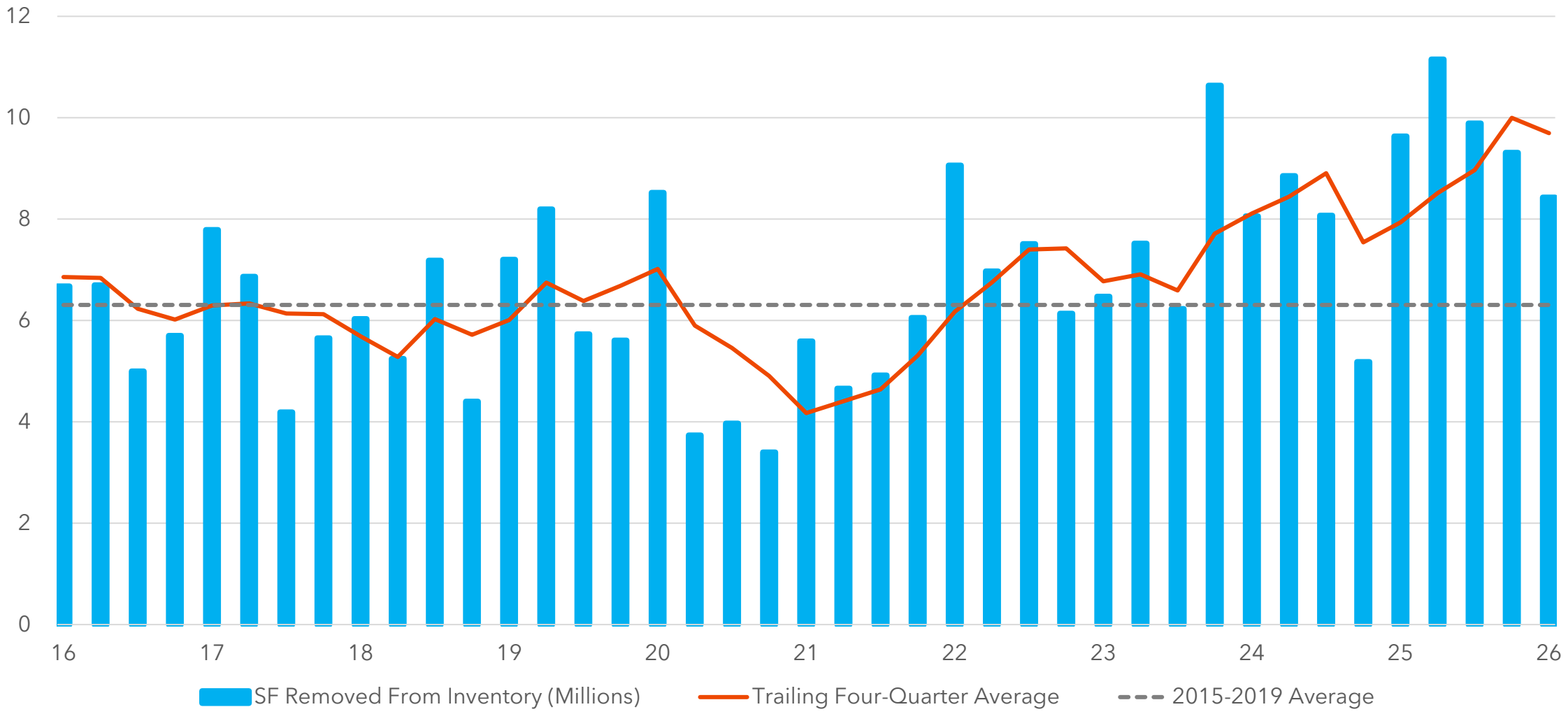
Conversions, redevelopments have accelerated demolitions



Source: CoStar

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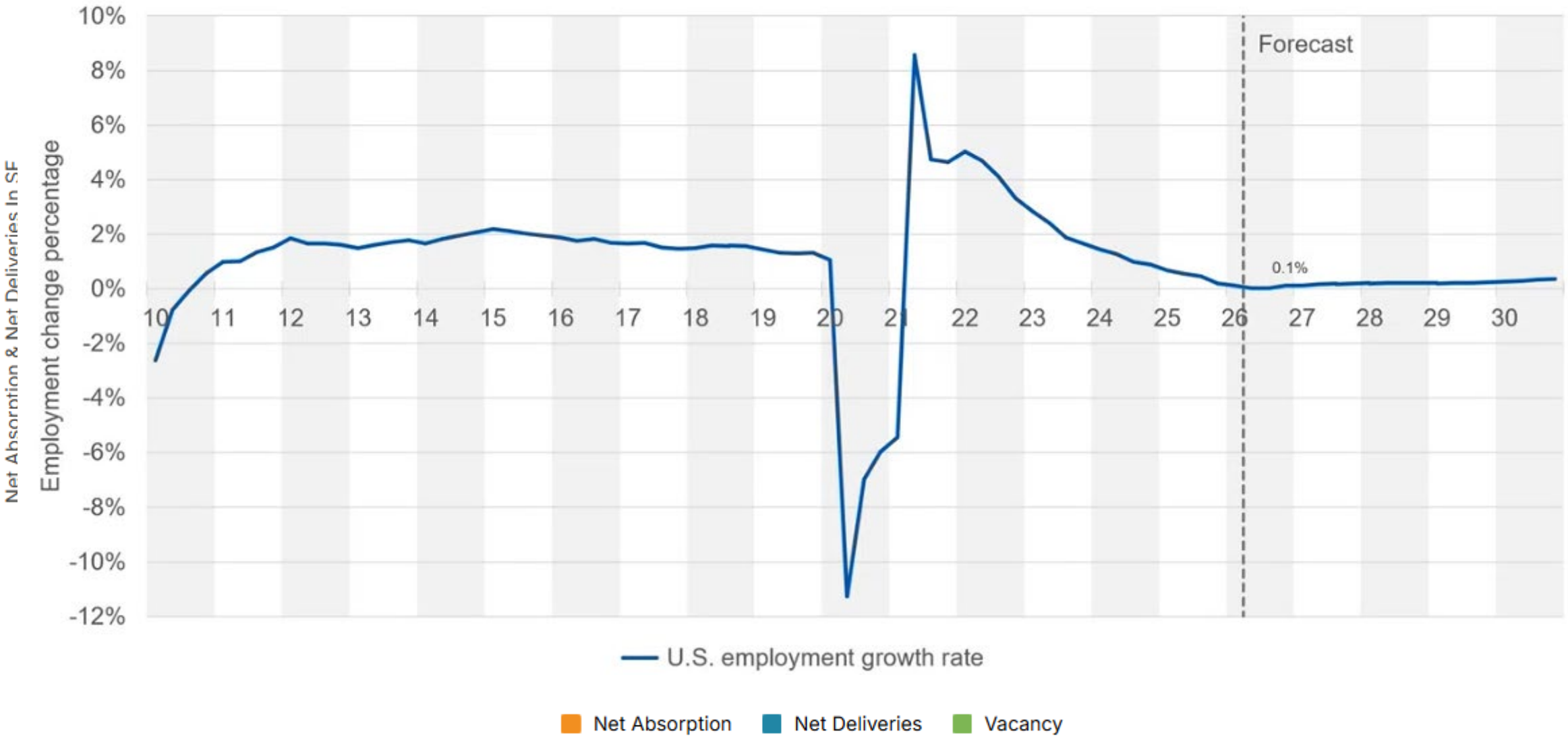
US employment growth projected to slow in 2026



Source: CoStar

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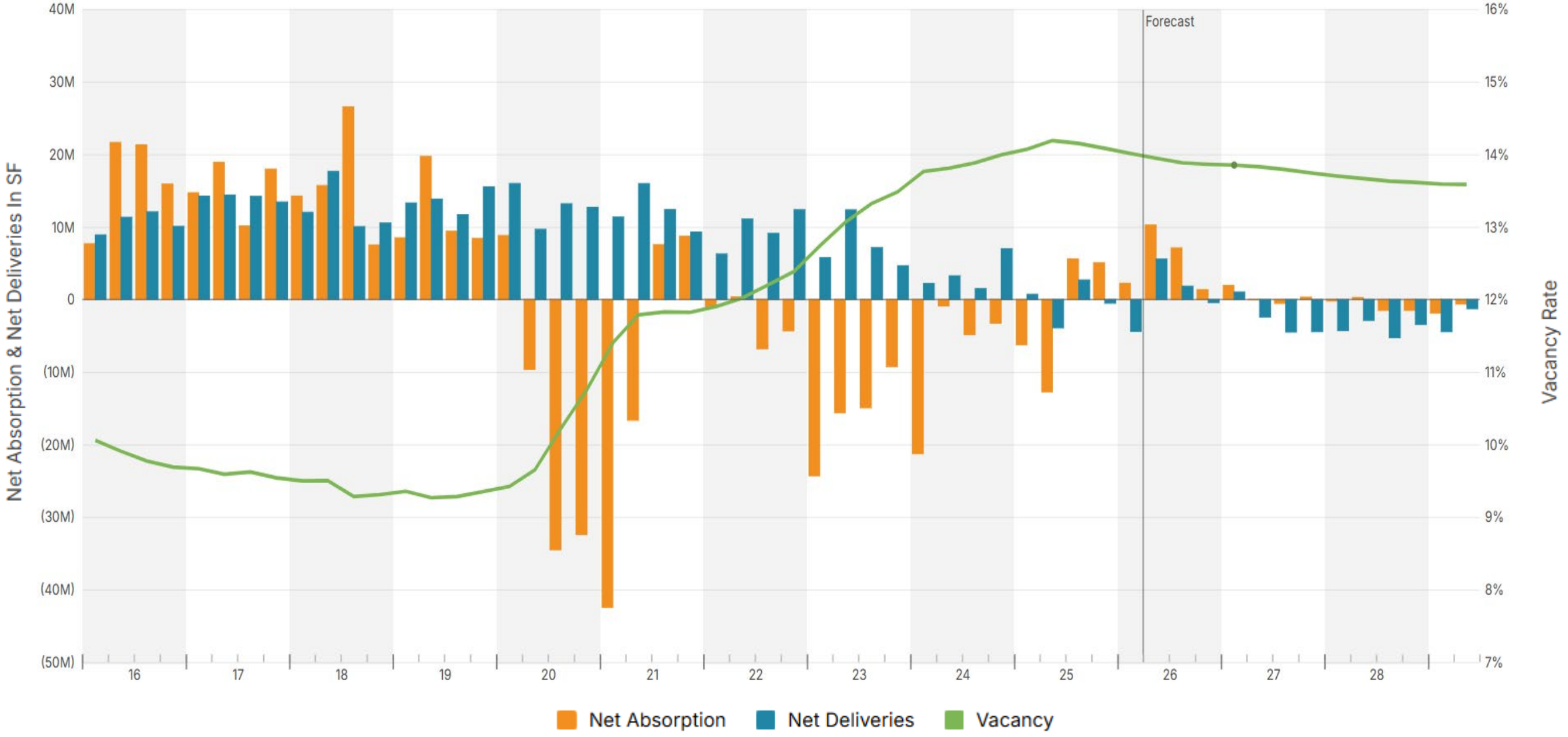
Vacancy peaked in mid-2025



Source: CoStar

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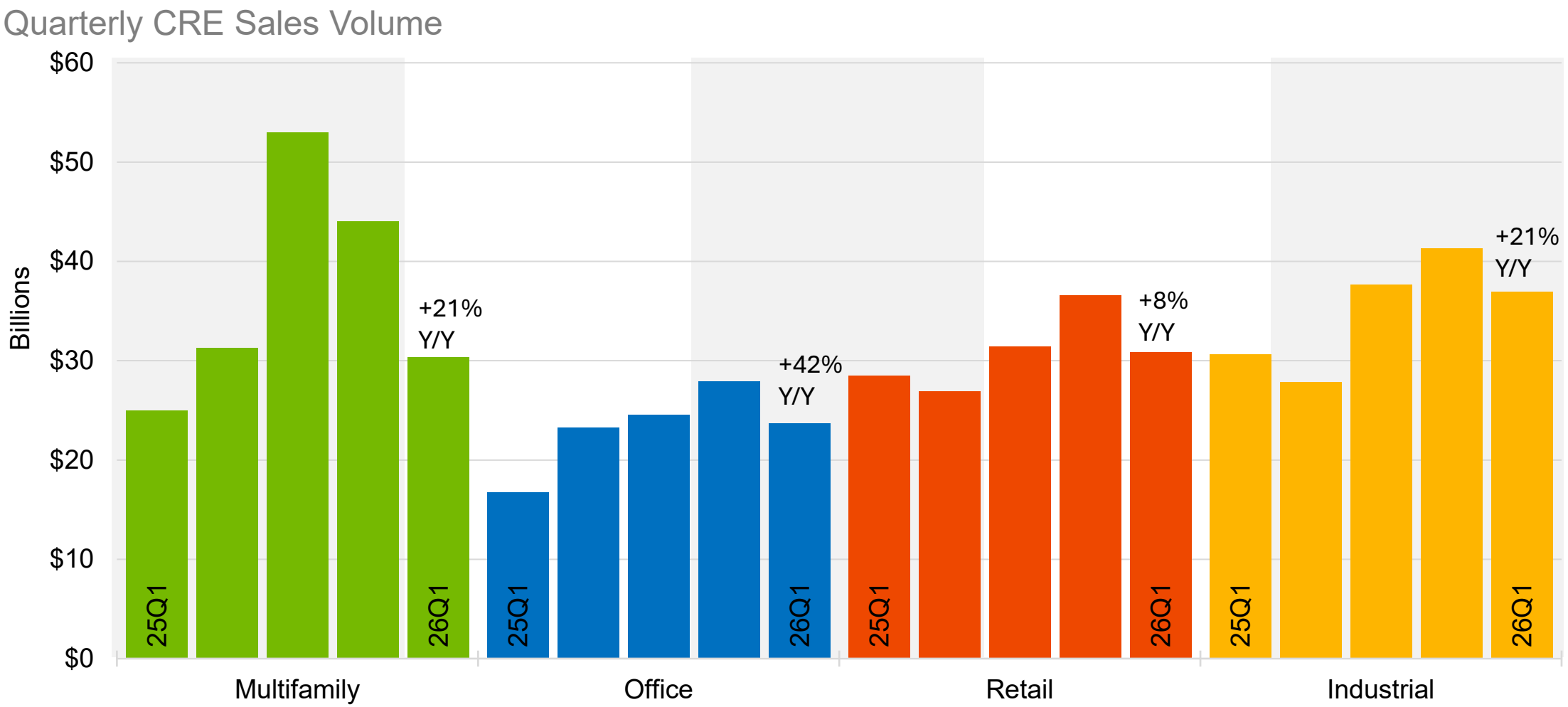
Office assets see the highest increase in quarterly sales volume



Source: CoStar, April 2026

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Polling Question #2

What region are you most optimistic about for CRE opportunities in the next year?

A. *Northeast*
B. *Southeast*
C. *Midwest*
D. *Southwest*
E. *West Coast*

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Industrial Market Update

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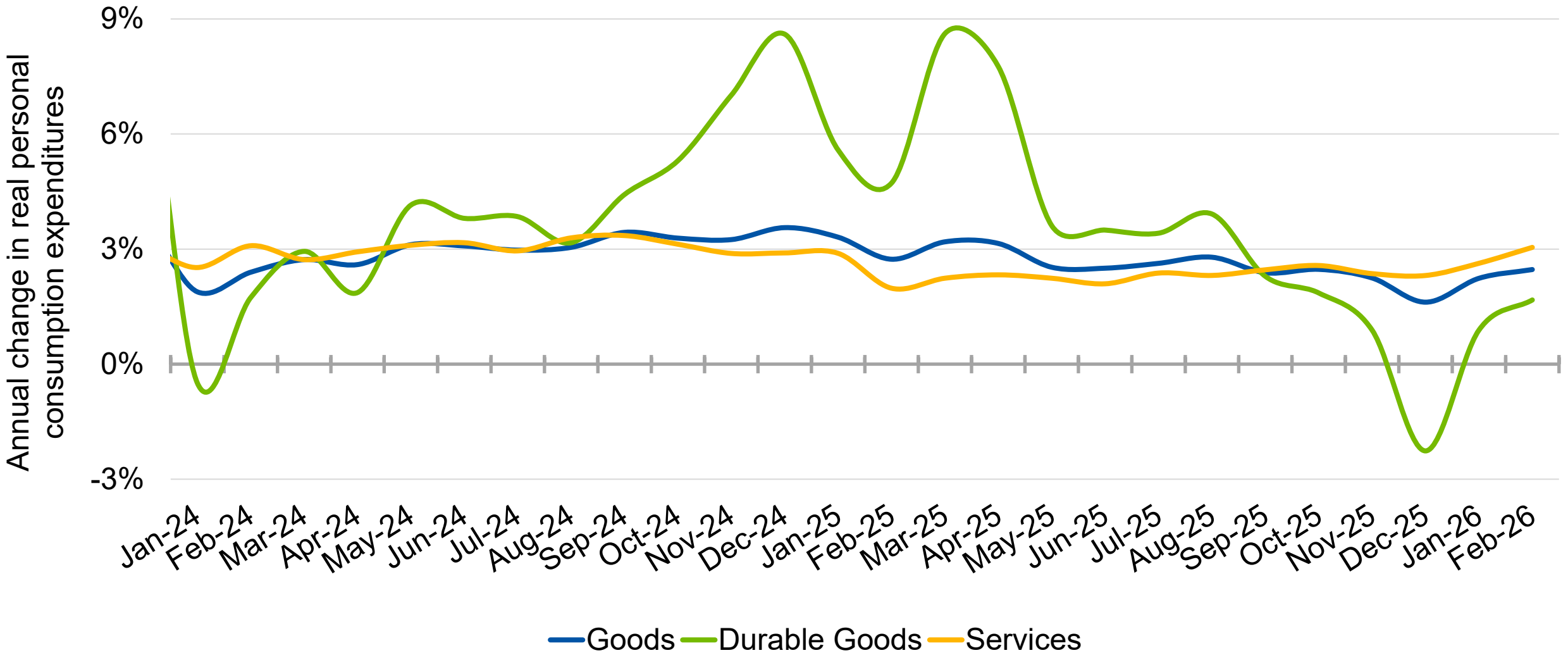
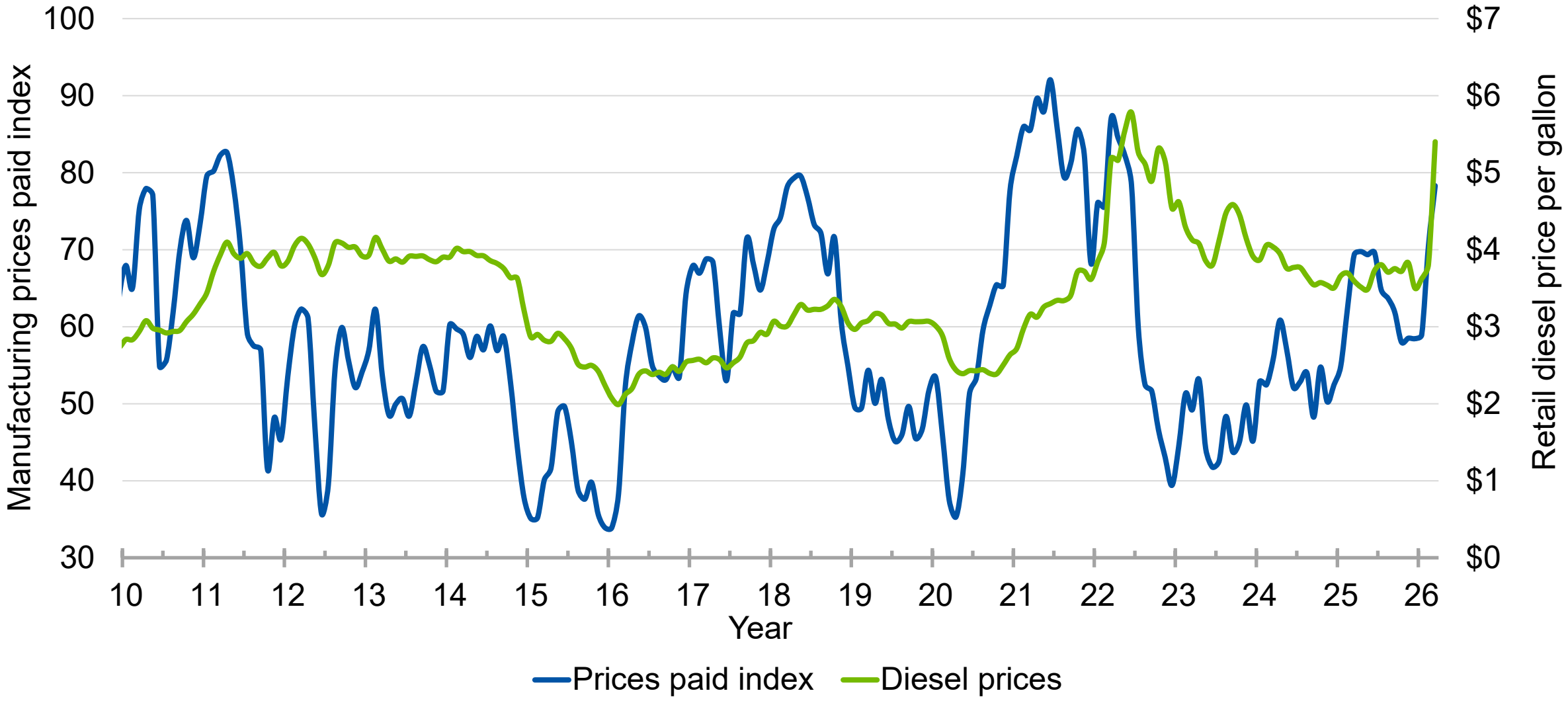
Goods spending softened significantly starting in the second half of 2025



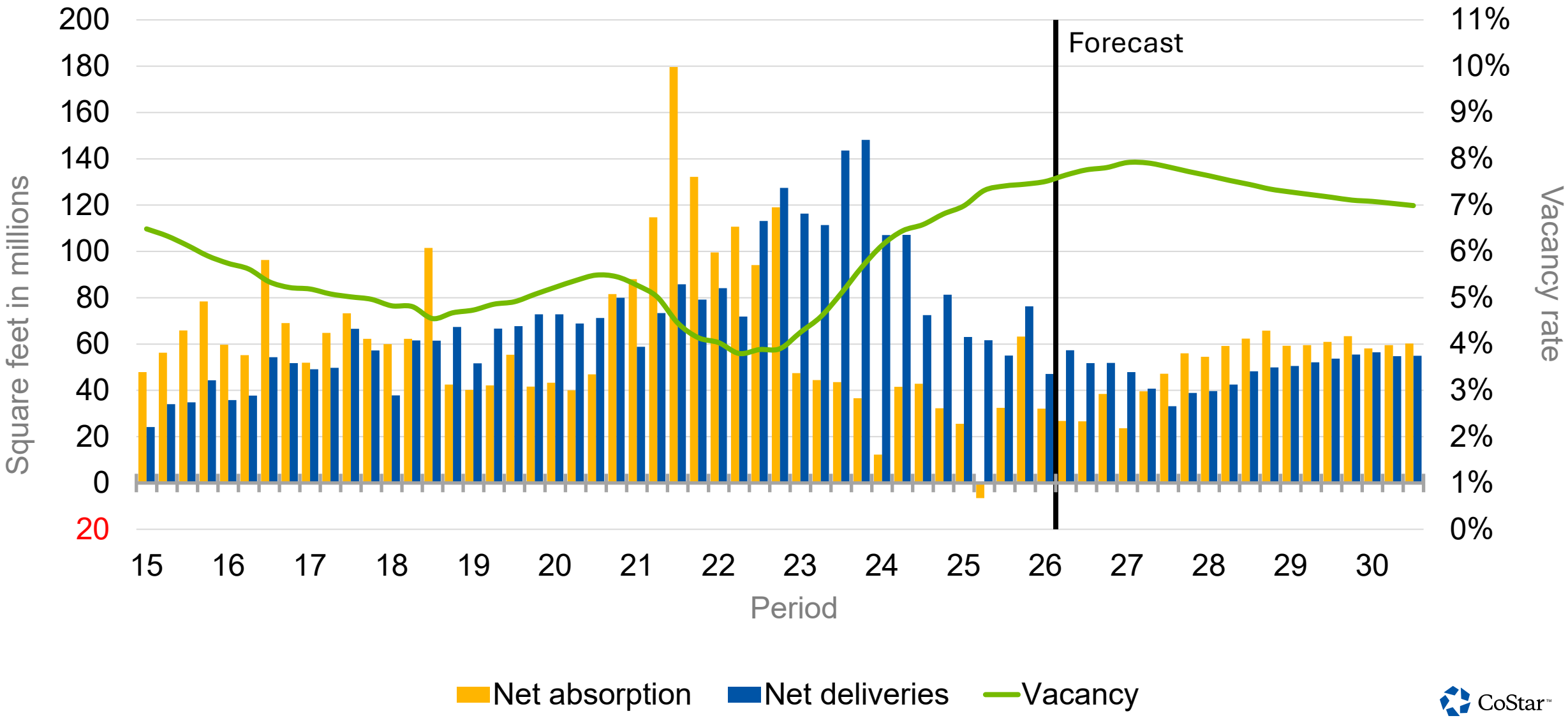
Sources: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CoStar, February 2026

Manufacturing and trucking profitability is being squeezed by higher costs, limiting logistics demand expansion



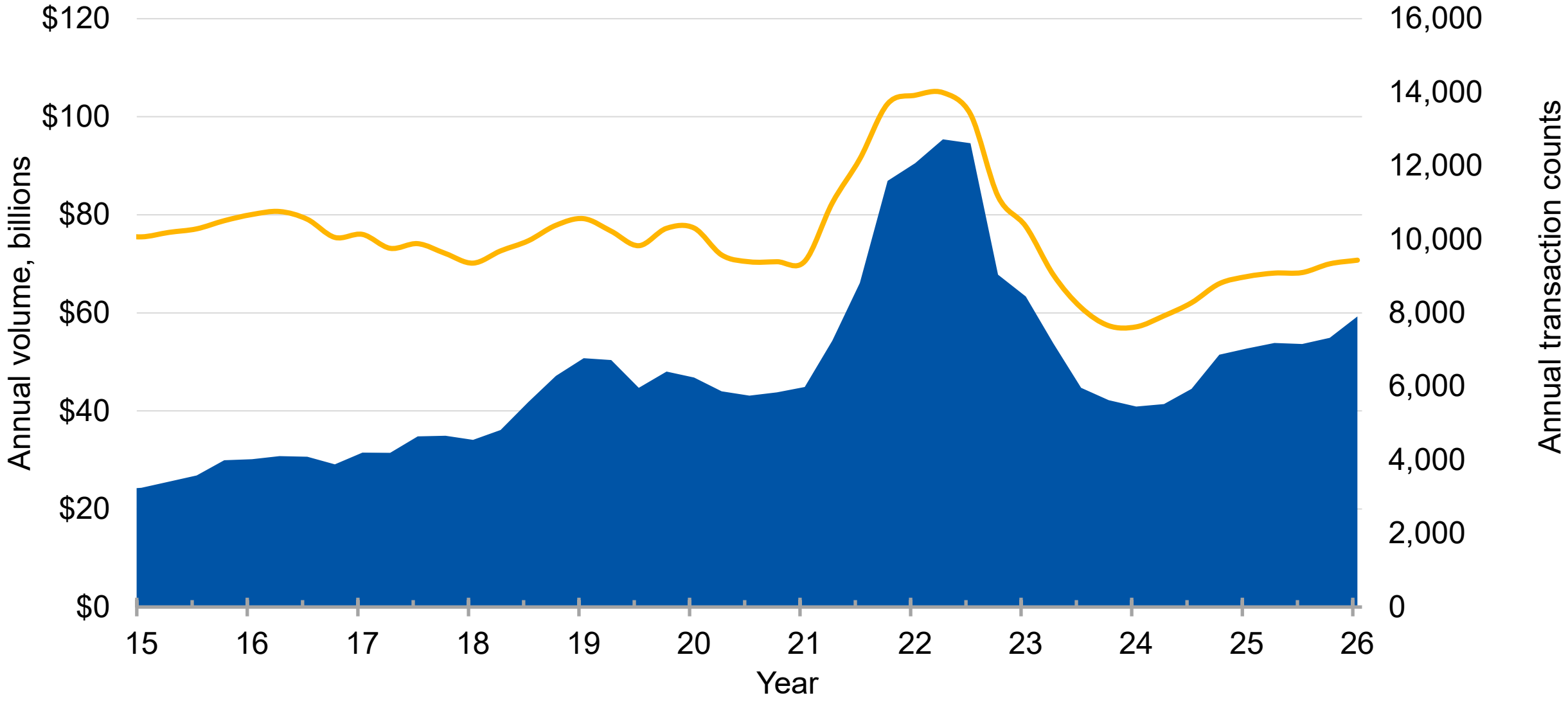
Sources: EIA, ISM, Macrobond, CoStar, April 2026

Industrial vacancy is forecast to peak in early 2027 as logistics supply additions moderate



Source: CoStar, April 2026

Logistics transaction activity is recovering to pre-pandemic levels



Source: CoStar, April 2026
Note: The analysis is limited to logistics properties.

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Retail Market Update

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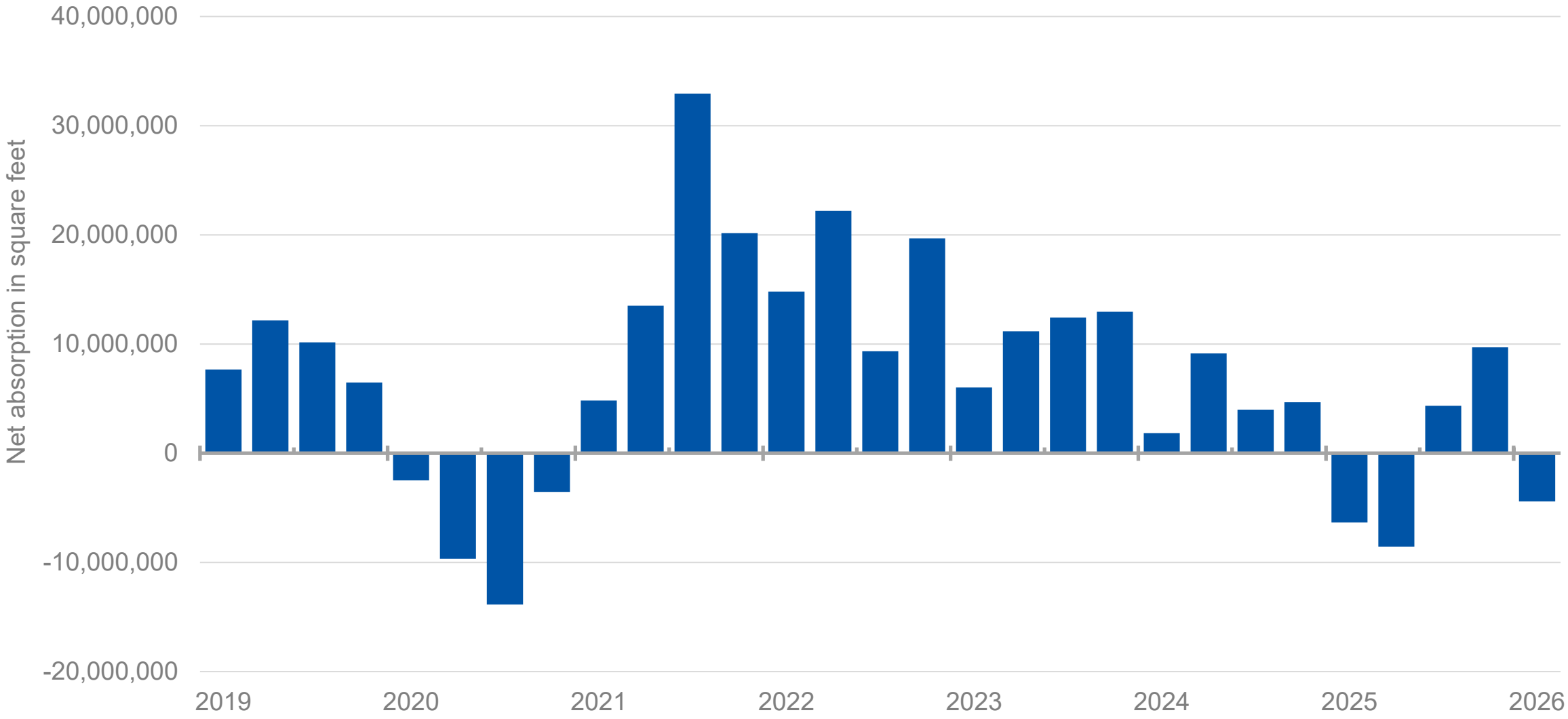
Retail absorption pulled back in 26Q1



Source: CoStar, January 2026
Note: Based upon aggregation of National Retail Index Markets

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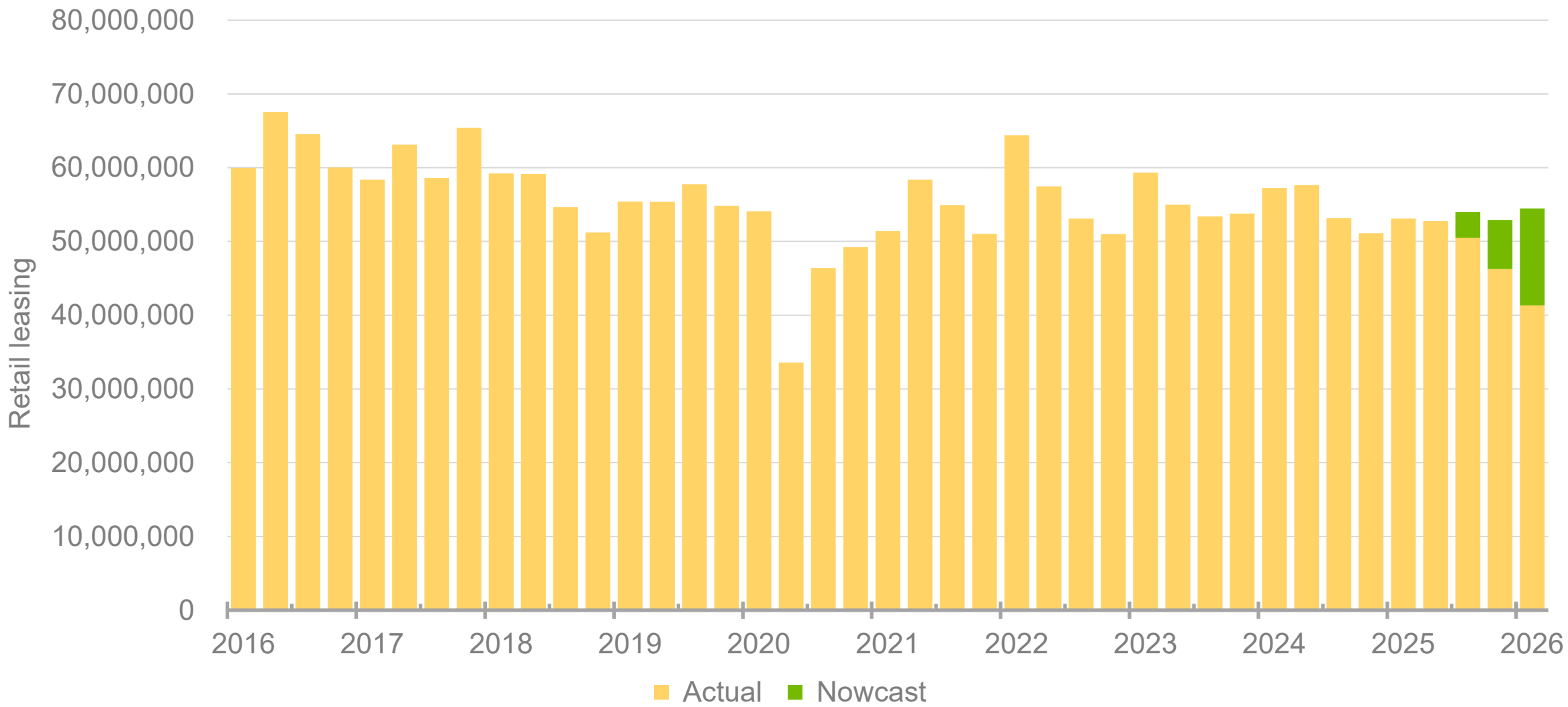
Leasing activity rose to highest level since early 2024



Source: CoStar, April 2026
Note: Based upon aggregation of National Retail Index Markets

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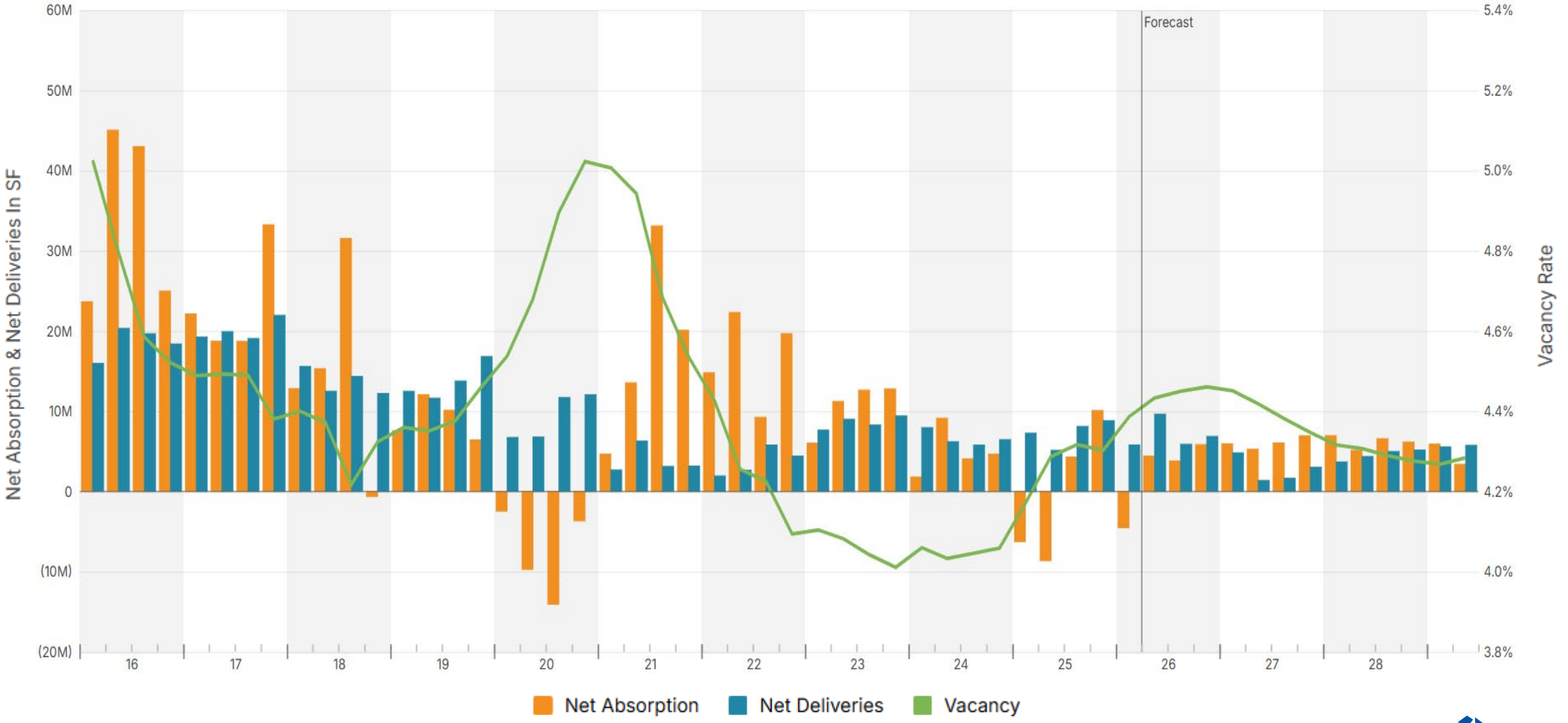
Market conditions remain balanced over the near term



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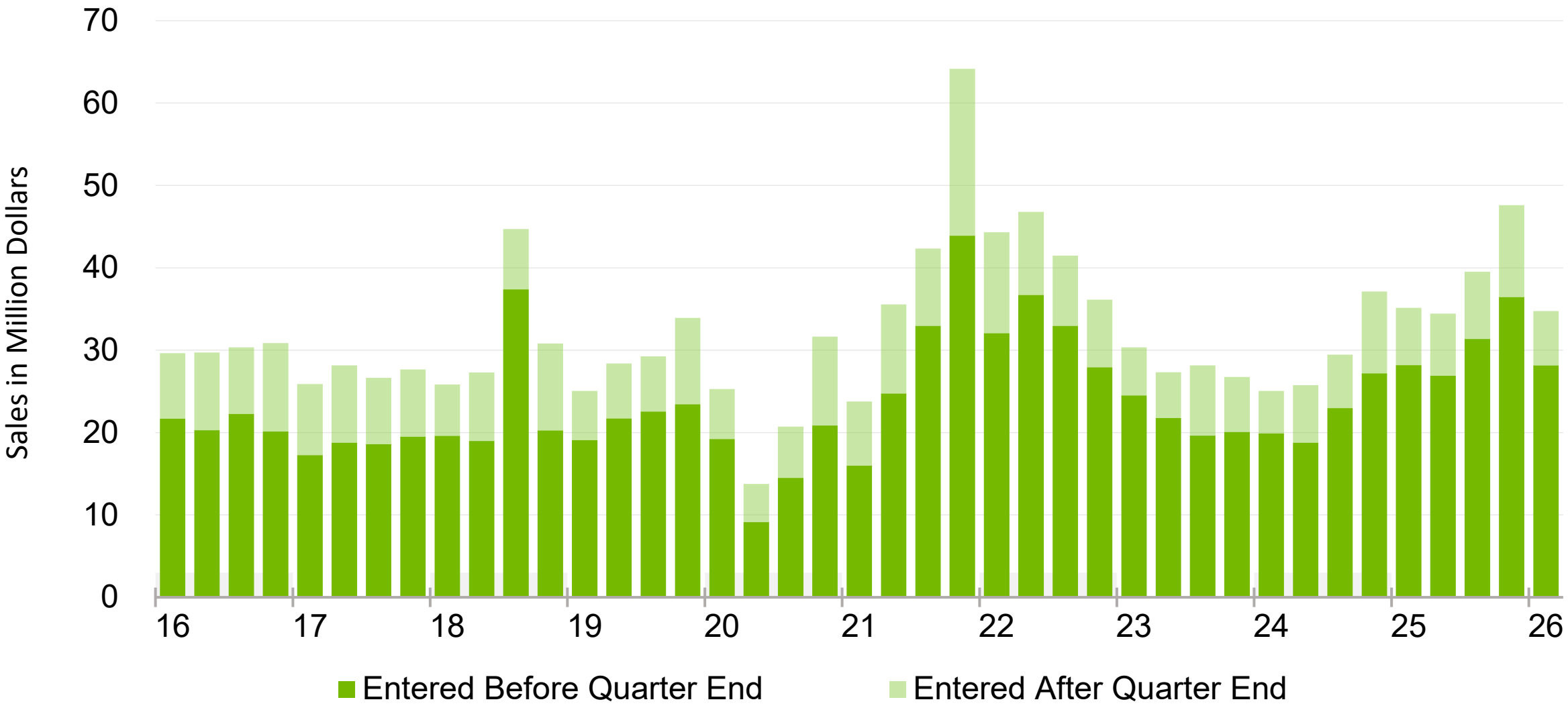
Wide rent spreads drive investment volume



Polling Question #3

What is your current outlook on CRE transaction volume for the next 12 months?

A. *Significant increase*
B. *Slight increase*
C. *Stay the same*
D. *Slight decrease*
E. *Significant decrease*

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Multifamily Market Update

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U.S. population and household growth are moderating

Source: Costar, Oxford Economics, April 2026

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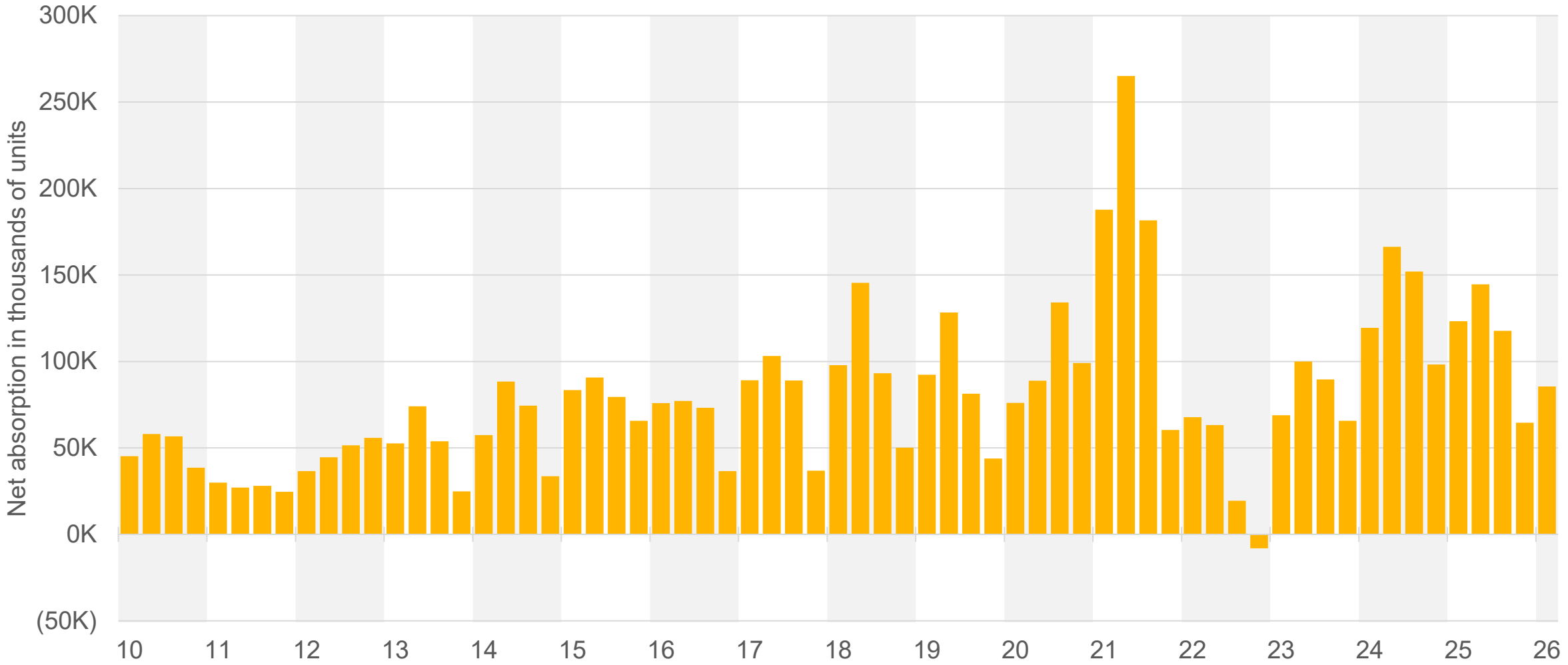
Absorption is normalizing



Source: Costar, April 2026

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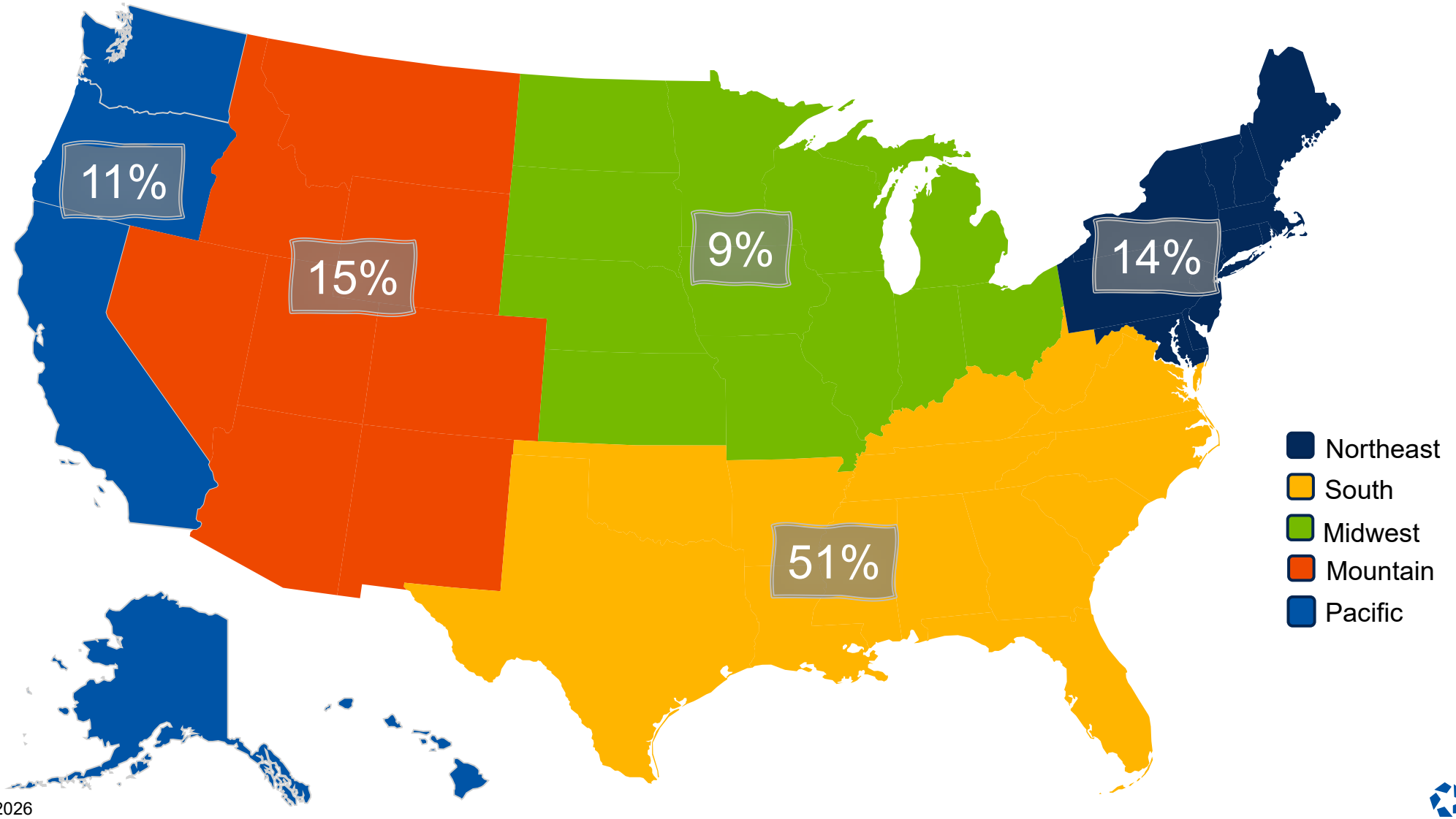
The South accounts for half of national absorption



Source: CoStar, April 2026

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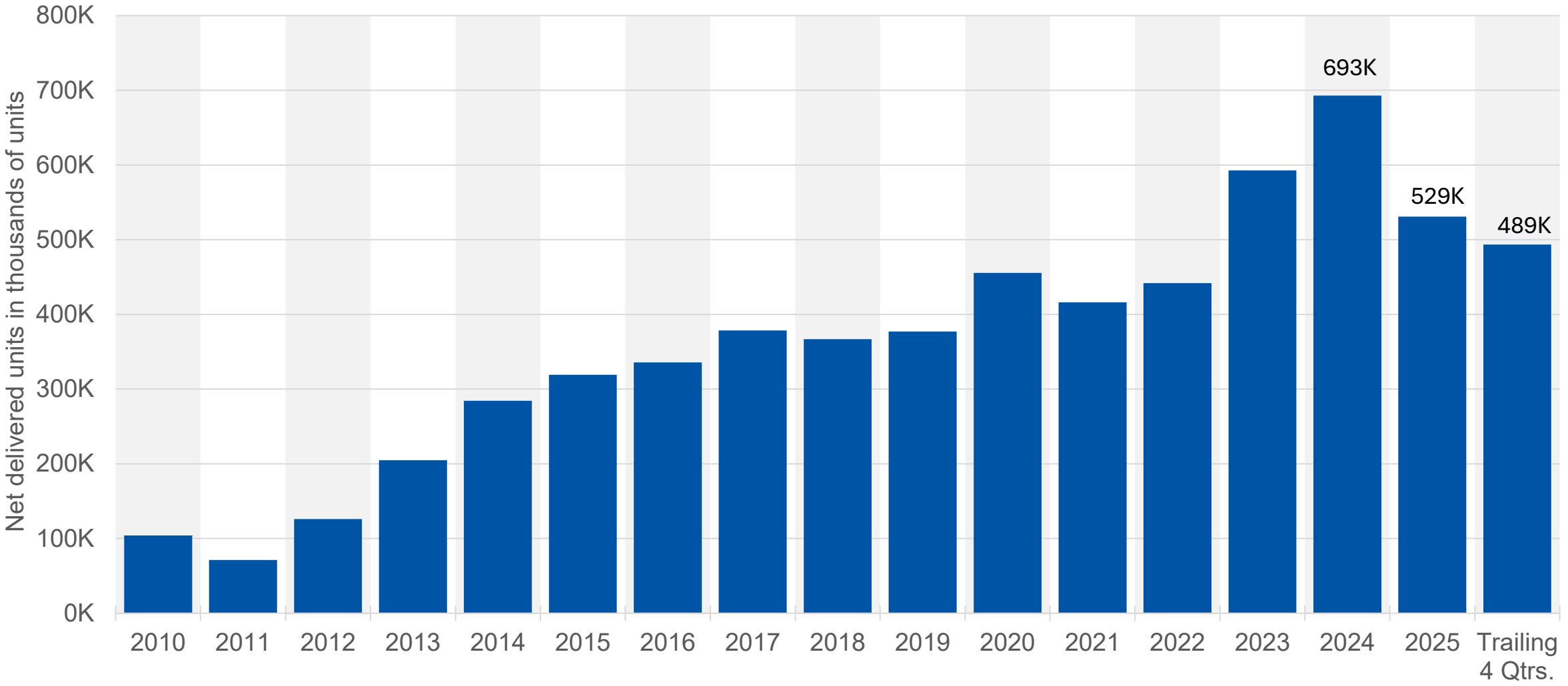
Supply declined 26% over the past four quarters



Source: Costar, April 2026

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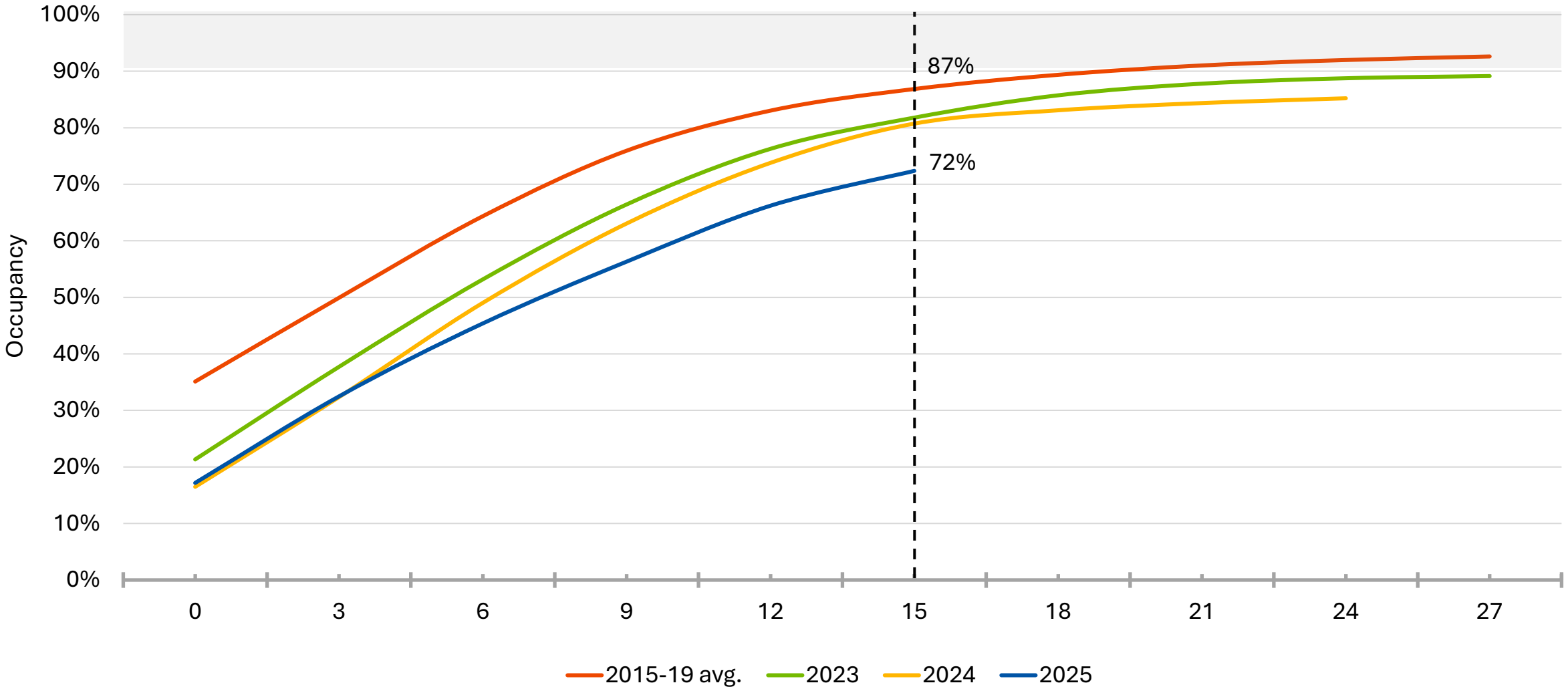
Lease-ups are taking longer to stabilize



Source: Costar, April 2026

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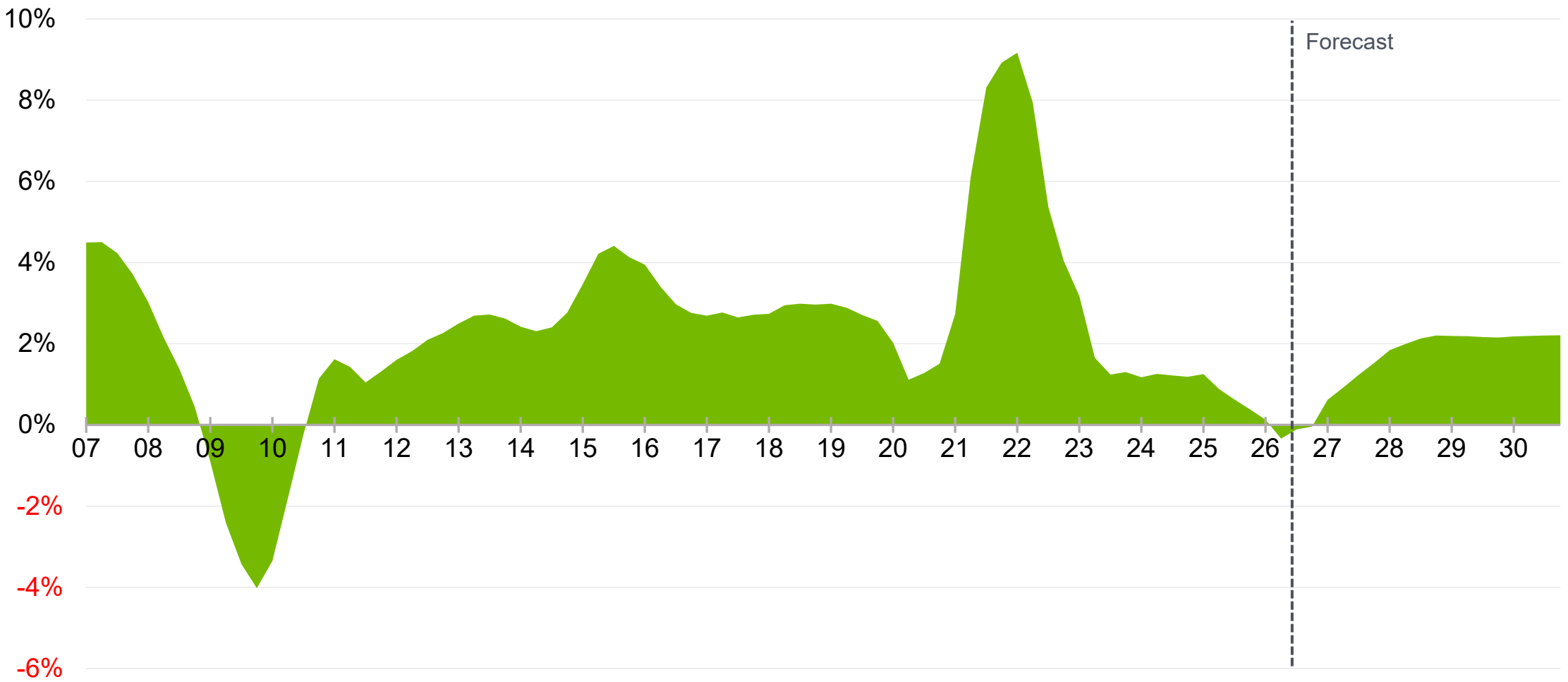
Rent growth should begin accelerating in 2027



Source: CoStar, April 2026

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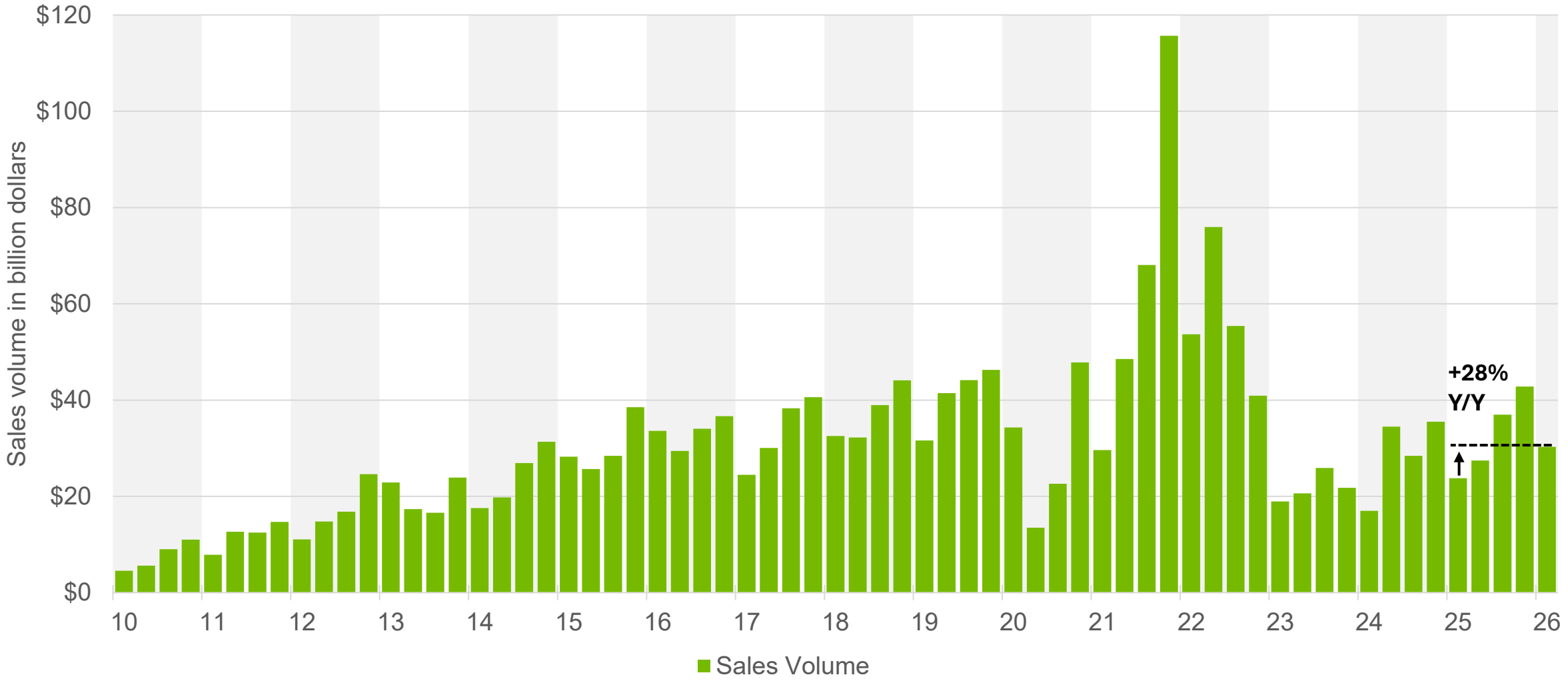
First-quarter sales volume up year over year by $7 billion



Source: Costar, April 2026

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Polling Question #4

What asset class do you expect to perform best over the next 12 months?

A. *Industrial*
B. *Multifamily*
C. *Retail*
D. *Office*
E. *Hospitality*

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The Real Estate Roundtable

Cohen & Co National Real Estate & Construction Market & Legislative Webinar
Legislative Update

- Legislative outlook and budget reconciliation – *will there be 'another bite at the apple'?*
- Real estate industry tax policy priorities:
  - Incentivizing commercial-to-residential property conversions
  - Reforming the tax treatment of demolishing vacant/underutilized buildings
  - Extending factory expensing to leased facilities
  - Opportunity Zones: transition rules, additional reforms
  - Historic rehabilitation tax credit improvements
  - LIHTC expansion / workforce tax credit
  - Energy efficiency incentives
  - Cost recovery reform
- Tax policy risks: carried interest; partnership reform; net investment income tax; active loss limitation; single family rental tax penalties; tax penalties on inbound foreign investment in U.S. real estate

The Real Estate Roundtable

For more information, contact:

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A Case Study on Incorporating AI and Process Improvement in Real Estate

Cohen & Co's Finance Transformation Team: John Cavalier & Elizabeth Janko
Cohen & Co's Data Intelligence Services Team: Patrick Grodach & Russell Hayman

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The Challenge: The operational complexities faced by real estate finance leadership

Siloed Teams & Fragmented Data and Workflows

- Property, fund and construction accounting teams often operate independently with disconnected processes, applications and reporting cadences

Manual, Error-Prone Processes

- Heavy reliance on spreadsheets for data aggregation, close activities, and reporting creates bottlenecks and risk during each close cycle

Scaling Pressure Without Scalable Infrastructure

- As portfolios grow and regulatory requirements shift, organizations need repeatable, governed processes that can scale without proportionally increasing headcount

Limited Visibility Across the Enterprise

- Inconsistent data, lack of standardized KPIs and delayed reporting make it difficult for leadership to make timely, informed decisions

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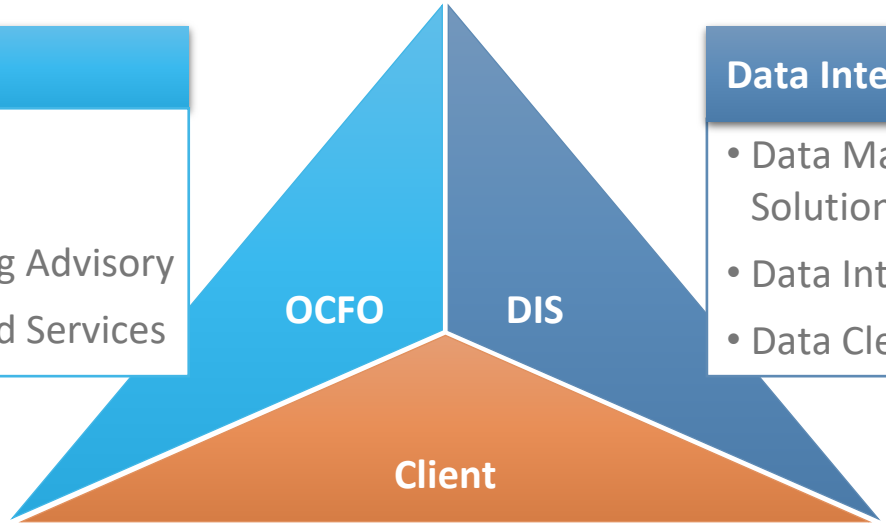
Our Approach: Integrated solutions through cross-functional excellence

- ***Cohen & Co's approach integrates OCFO Advisory, Data Intelligence Services and our specialized accounting teams into a unified engagement model that addresses operational challenges holistically***

Office of CFO

- Finance / Digital Transformation
- Technical Accounting Advisory
- Accounting Managed Services



Data Intelligence Services

- Data Management Solutions
- Data Integrations
- Data Clean-up

Client

- Domain Expertise
- Business Insights & Expertise
- Functional / Organizational Leadership

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Our Approach: Addressing the five key pillars of a target operating model

Performance Management	*Establish clear service level targets aligning and building the constructs to monitor performance and drive continuous improvement across the operating model*
Technology Enablement	*Align technology to overarching enterprise requirements to streamline operations, drive insights and enable a more flexible, scalable operating model*
Process Optimization & Change Management	*Standardize and redesign end-to-end workflows to reduce variation, support consistent execution, and prepare processes for automation and scale*
Governance & Controls	*Embed ongoing governance and a performance-improvement framework to sustain gains, manage risk and continuously refine operations*
Service Delivery Model	*Design how finance services are delivered across people, processes, technology and locations to improve efficiency, quality, cost and business support*

These five pillars form the foundation of our approach and are tailored to each client's unique operational needs

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Our Solutions: Integrating processes and technology enablement across all areas of the organization

Understand how the business operates and how technology enables it; identify opportunities to create value through optimized processes and/or solutions; develop a clear plan to achieve

Construction Management & Accounting

- Budget Tracking & Cost Controls
- Draw Management & Compliance
- Job Cost Reporting & Forecasting

Property Accounting

- Dev-to-Ops Transitions
- Cost Allocation & Reclassification
- Portfolio-Wide Adjustments

Enterprise Accounting & Reporting

- Fair Value & Quarterly Close
- Waterfall & NAV Calculations
- Investor Reporting

Fund Accounting

- Fair Value & Quarterly Close
- Waterfall & NAV Calculations
- Investor Reporting

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Our Approach: Multi-phased approach designed to meet organization needs and effectively manage change

Each engagement is customized to your organization's needs, combining our cross-functional capabilities within a proven delivery framework

Phase 1: Discovery & Assessment

- Rapid diagnostic of the major end-to-end finance and accounting processes, including the tools and technology supporting those processes along with identifying the set of future state requirements

Phase 2: Design & Optimization

- Target operating model design supported by discreet set of value creating opportunities (VCOs) that close the gap between the current state and target future state

Phase 3: Implementation & Quick Wins

- Governed by the overarching prioritized roadmap, implementation prioritizes the quick wins to drive broader transformation supported by leading project and change management practices

Phase 4: Sustain & Continuous Improvement

- Embedded governance, performance monitoring, and feedback loops to ensure gains are maintained and operations continue to evolve

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Our Approach: A cross-functional engagement model with strong Cohen – Client partnership

Exec Steer-Co

Executive Steering Committee (ESC)

Aligns boarder enterprise strategy to transformation initiatives

- Provides overall leadership, strategy and direction
- Champions the transformation at the executive level
- Removes organizational roadblocks
- Approves major decisions and funding

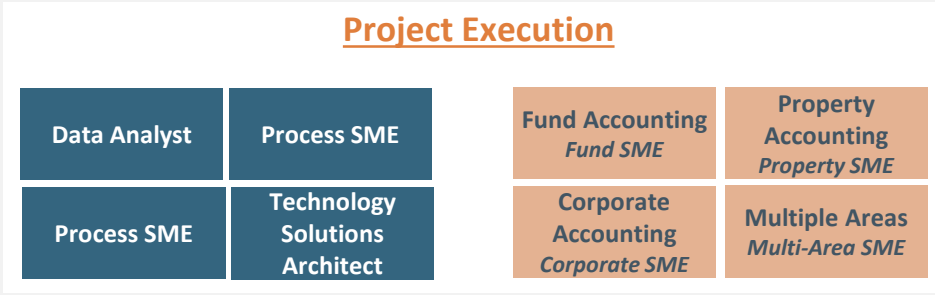
Transformation Management & PMO

Transformation Program Office (TPO)

Owns day-to-day operations and decision making

- Oversees day-to-day execution of implementation / transformation programs
- Set standards and coordinate of cross business function projects
- Reports and manages progress, risks, and issues
- Ensures alignment between program goals and stakeholders

Project Execution & SME's



Project Sponsors and Mangers – Functional Process Leads

Bridge between the strategic objectives and day-to-day operations

- Delivers project outputs that meet quality and business requirements
- Coordinates cross-functional teams and vendor partners
- Provides specific knowledge and expertise

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Polling Question #5

What topics are you interested in hearing more about?

A. *REIT structuring and taxation*
B. *Real estate partnership roll-up restructuring*
C. *State and local taxation planning*
D. *Outsourced construction draw accounting*

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Qualified Opportunity Funds Update

Angel Rice, Cohen & Co

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Opportunity Zone Census Tracts – Designations for OZ 2.0

- Timeline
  - Process kicks off July 1, 2026
  - Governors of each state will have 90 days to submit their selections of low-income census (LIC) tracts for designation as an OZ
    - 30-day extension available until 10/28/26
  - Treasury then has 30 days to certify states' submissions
    - 30-day extension available, so the final day by doing the math would be 12/27/26 (however, IRS guidance mentions 12/28/26)

- Once certified, the OZ 2.0 map will go into effect starting January 1, 2027, and be in effect for 10 years
  - Will be overlap of the OZ 1.0 and OZ 2.0 maps for tax years 2027-2028

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Opportunity Zone Census Tracts – Designations for OZ 2.0 (cont.)

- Eligible Census Tracts
  - OBBBA revised the standard for what will be considered an eligible LIC for OZ designation. It will be eligible if it has either:
    - A median family income that does not exceed 70% of the statewide median family income, **or**
    - A poverty rate of at least 20% and a median family income that does not exceed 125% of the statewide median family income
  - Each state can nominate up to 25% of their eligible LICs for certification as an OZ
    - If a state has fewer than 100 tracts, they can certify exactly 25
    - If a state has fewer than 25 eligible tracts, all can be certified
    - No specific percentage is required to be rural OZs
  - Puerto Rico
    - Under OZ 1.0, all LICs were deemed certified and designated
      - This designation will end **December 31, 2027**
    - Under OZ 2.0, LICs will follow the same nomination process as other jurisdictions

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Opportunity Zone Census Tracts – Designations for OZ 2.0 (cont.)

- Eligible Census Tracts
  - Contiguous Tracts
    - Under OZ 1.0, governors could nominate a certain percentage of tracts that were contiguous tracts to LICs
    - Now under OZ 2.0, each census tract will have to stand on its own

- IRS Guidance Rev. Proc. 2026-14
  - Confirms low-income census tracts for each state that are eligible to be nominated for OZ designation
  - There will be a process to submit a tract not listed in the Rev. Proc. for consideration, as long as additional support is provided

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Opportunity Zone Census Tracts – Designations for OZ 2.0 (cont.)

- Takeaways
  - Reach out to your advisors **now** regarding census tracts that you currently have projects in or where you are contemplating new projects to understand if those census tracts are eligible for OZ 2.0 designation
  - Determine which group will be responsible for recommending the census tracts for the governor in your state to certify
    - Understand what their recommendation process will be to potentially provide a path for advocacy
  - We are still waiting on guidance from Treasury regarding the transition from OZ 1.0 and OZ 2.0

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Top Questions from Real Estate Funds

Asha Shettigar, Cohen & Co

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How are you structuring your real estate funds to manage or mitigate UBTI exposure for tax-exempt investors, particularly in leveraged deals?

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How are you structuring your real estate funds to manage or mitigate UBTI exposure for tax-exempt investors, particularly in leveraged deals?

- Tax-exempt investors generally are not subject to U.S. federal income tax
- However, tax-exempt investors are subject to tax on Unrelated Business Taxable Income (UBTI)
- Income from a trade or business that is not substantially related to the charitable or other purpose that is the basis of the organization's exemption is considered UBTI
  - Passive investment income such as interest, dividends and rents from real property are generally exempt from this definition of UBTI
- While rents from real property and gain on the sale of real property are typically not UBTI, rents and gains from debt-financed property would be subject to tax
- Since in most cases, debt is used to acquire or develop real estate
  - Rents from and gains on the sale of U.S. real property result in UBTI and subject a tax-exempt investor to U.S. tax
    - Exception for certain qualified organizations (QOs)

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REIT Structure for Tax-Exempts

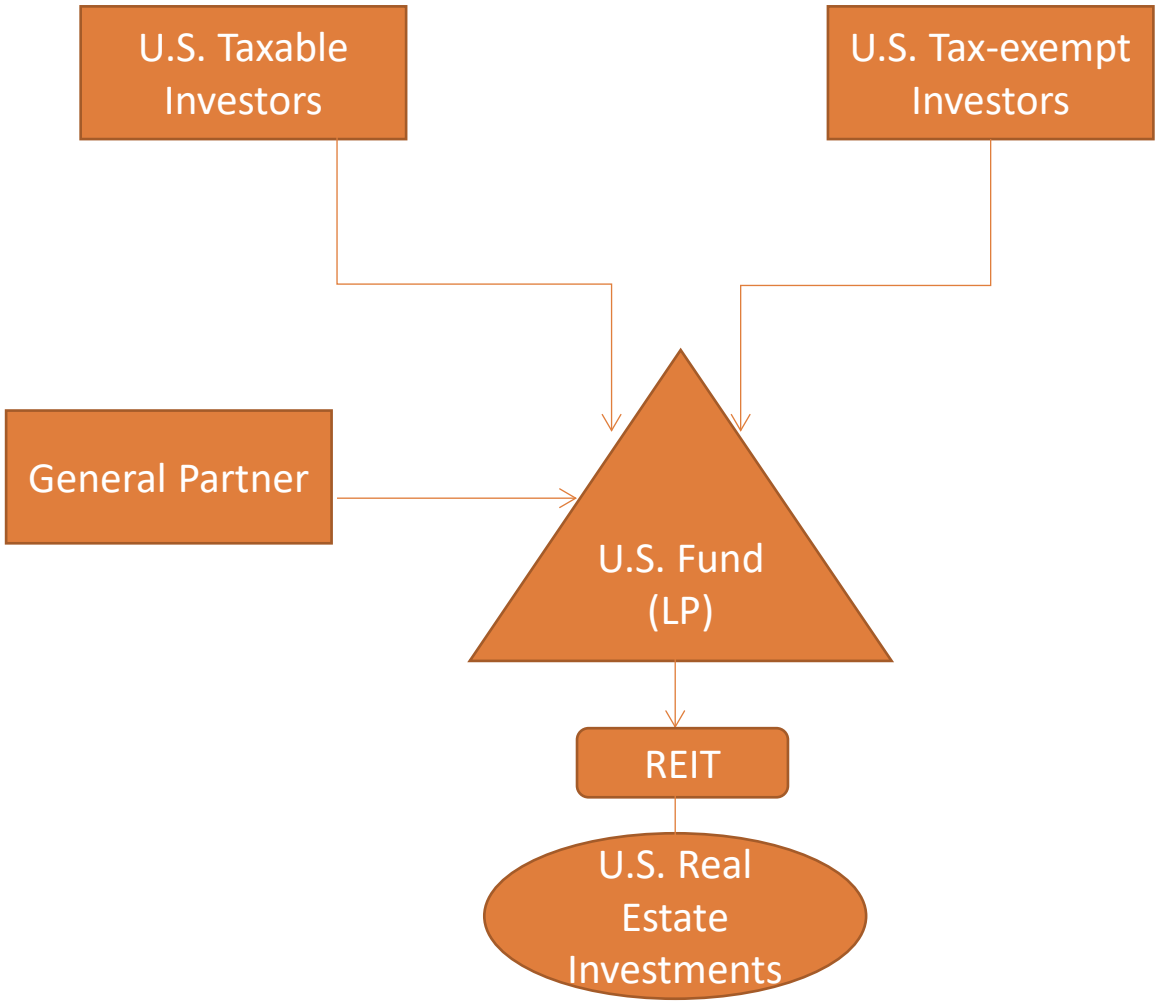

Diagram Legend

	Partnership
	Disregarded Entity
	Investor/Other

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Structuring Options Using REITs

- Use of private REITs is a common investment vehicle for U.S. tax-exempt investors to invest in U.S. real estate
- A tax-exempt investor may receive dividends from a private REIT that are exempt from U.S. tax - Exceptions from UBTI
  - REIT level debt- Rev. Rul. 66-106 provides that dividend income to tax-exempt REIT shareholder is not UBTI
  - Shareholder level financing may still create UBTI
- A sale of REIT shares would not subject the tax-exempt investor to U.S. income tax
- Pension-held REITs
  - Tax-exempt pension trusts that own more than 10% by value of a pension-held REIT (REIT owned more than 50% in value by one or more qualified trusts, each of which own more than 10% in value of the REIT or 25% owned by a single qualified trust)
    - May need to treat a certain percentage of dividends received as UBTI

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Polling Question #6

What topics are you interested in hearing more about?

A. *Estate planning*
B. *Outsourced accounting and bookkeeping*
C. *Real estate fund investor reporting*
D. *Opportunity Zone real estate appraisal and valuation assistance*
E. *Incorporating AI and process improvement in real estate*

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How do you choose between blockers, REITs or other feeders to manage ECI/FIRPTA and U.S. filing exposure for foreign LPs?

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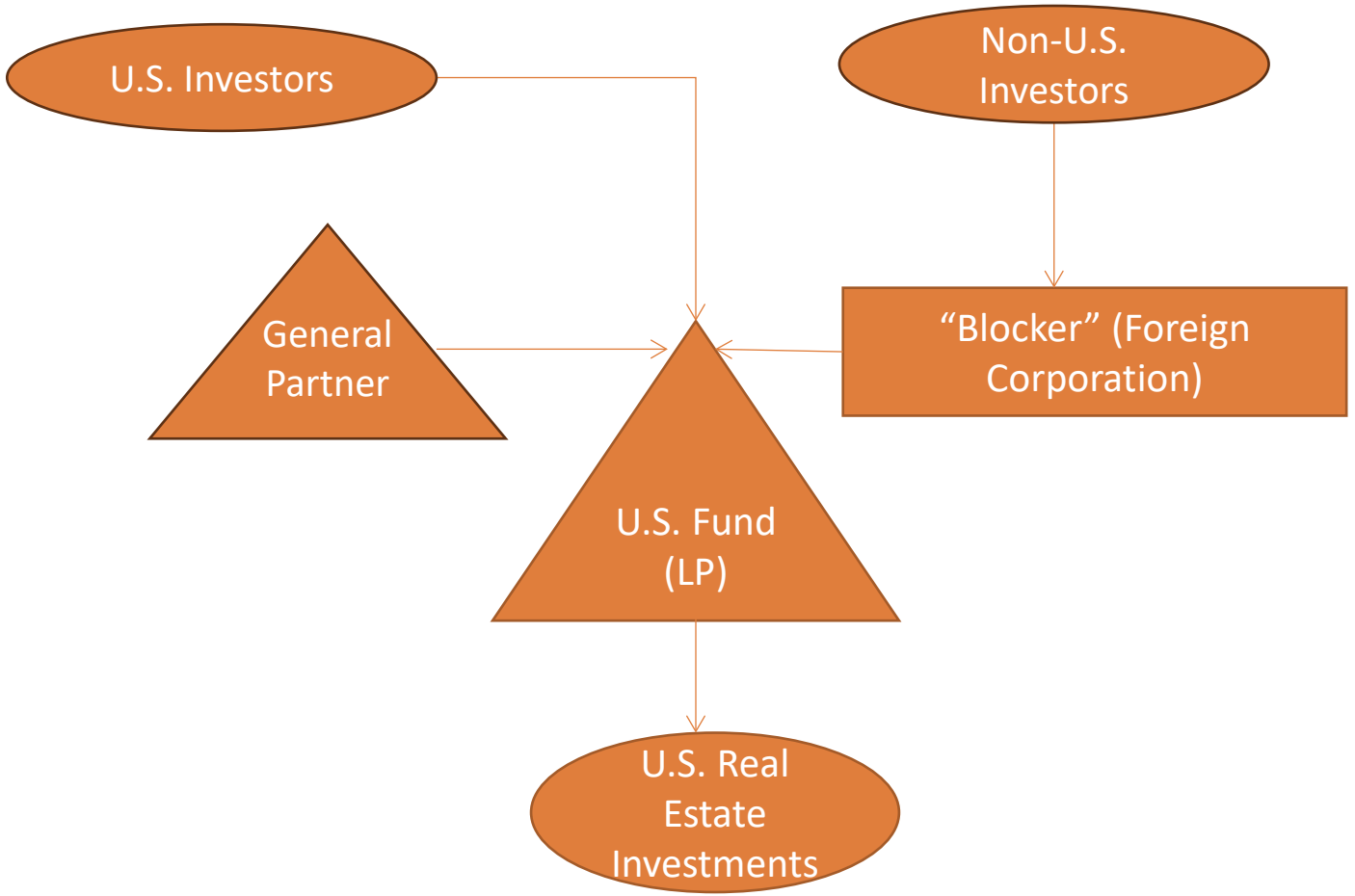
Foreign Corporate Blocker Structure



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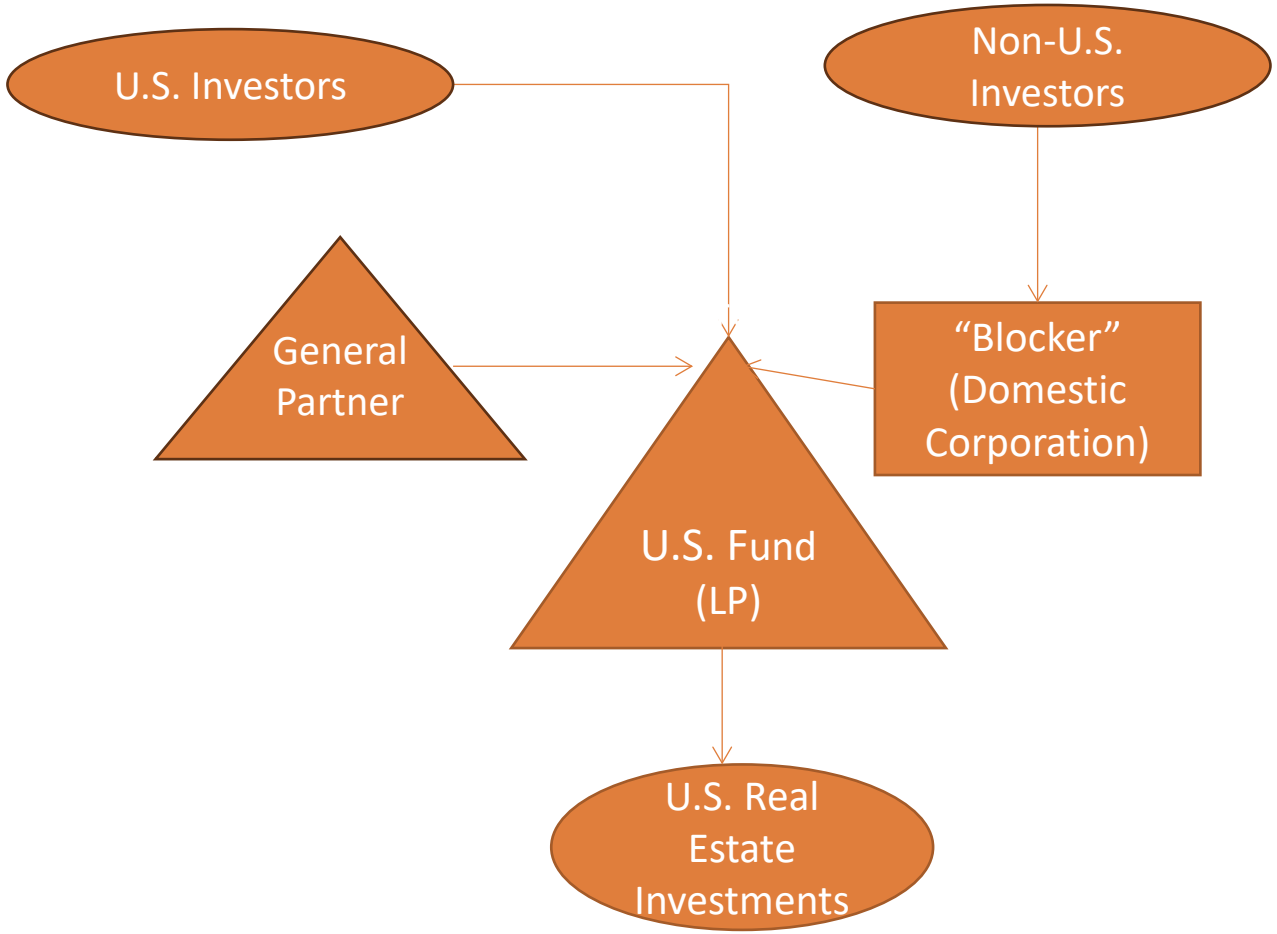
U.S. Corporate Blocker Structure



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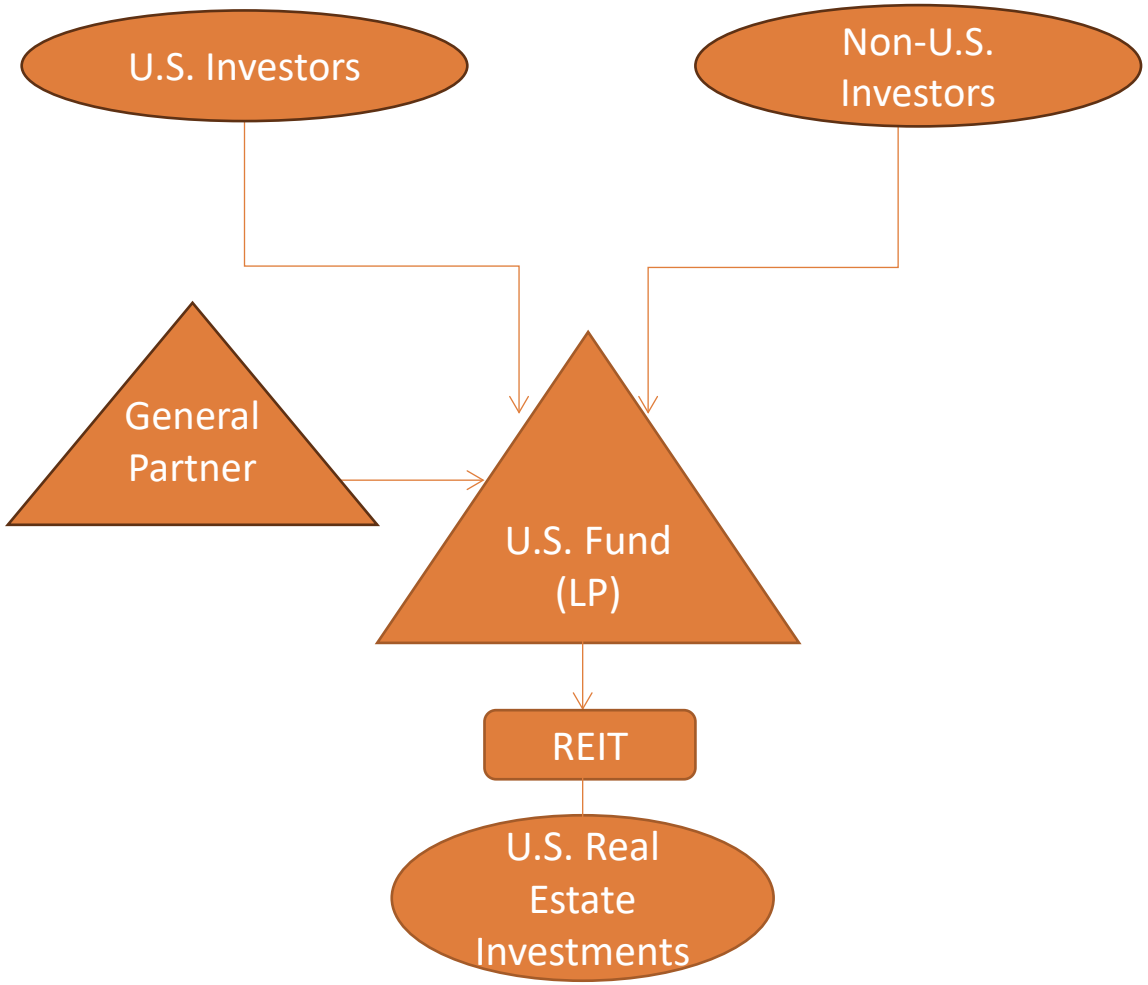
REIT Structure



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How do you choose between blockers, REITs, or other feeders to manage ECI/FIRPTA and U.S. filing exposure for foreign LPs? (cont.)

- **Foreign corporations**
  - Tax on foreign corporations
    - Generally taxed under the code on a gross basis on their non-ECI, and
    - On a net basis on their ECI (rules similar to those applicable to US corporations)
    - Foreign corporations are also subject to BPT on their effectively connected earnings and profits that are not considered reinvested in their U.S. trade or business
  - Repatriation of earnings
    - Same as U.S. corporations
    - Interest paid by the foreign corporation's U.S. trade or business is U.S. source income, and thus potentially subject to U.S. withholding tax
    - Stock of a foreign corporation can be sold by foreign persons free of U.S. tax
      - Does not constitute a USRPI under FIRPTA

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U.S. Tax Implications of Specific Investment Vehicles

- **REITs**
  - Dividend paid deduction allowed
  - Ownership, assets, income and distribution requirements
    - REIT must distribute at least 90% of its net income exclusive of capital gains to its shareholders
    - In practice, most REITs typically distribute 100% of their income to avoid a corporate level tax on earnings
  - May avoid tax at the corporate level by distributing all net income currently to shareholders
  - Not subject to the BPT and REITs are permitted to have 100%-owned subsidiaries (QRS)
  - Taxation of a distribution from a REIT depends on whether the distribution is attributable
    - To ordinary operating profits, or
    - To gain from sales or exchanges of U.S. real property interests – treated as ECI
  - FIRPTA withholding rules

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U.S. Tax Implications of Specific Investment Vehicles (cont.)

- **REITs (cont.)**
  - To the extent a distribution is not designated as a capital gain dividend
    - The distribution generally is treated as a regular dividend of non-ECI (Ordinary dividend)
    - Subject to the 30% statutory withholding tax rate for dividends or a lower treaty rate, if applicable
  - Foreign entities that dispose of shares in a REIT are likely to be subject to U.S. tax on their gain
    - If the REIT is foreign controlled, i.e., if 50% or more of the REIT stock is owned by non-U.S. persons
    - And the REIT stock is otherwise a USRPI
    - Gain subject to tax is treated as ECI
    - Investor must file a US tax return and report the gain
  - No tax is imposed on disposition of "publicly traded" shares of a foreign-controlled REIT
    - If the investor owns or owned a 10% or less interest
  - Foreign investor disposing of shares in a domestically controlled REIT, i.e., if 50% or more of the REIT stock is owned by U.S. persons, generally is not subject to U.S. tax on the gain

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U.S. Tax Implications of Specific Investment Vehicles (cont.)

- **Partnerships**
  - Passthrough entity
  - Partners are taxed directly on their share of the partnership's income annually
  - Each foreign partner of a partnership may be required to file a U.S. income tax return
  - Income taxed in the hands of the partner retains its original character as that for the partnership
  - Required to withhold on a foreign partner's share of net ECI and, in the case of a U.S. partnership, FDAP income
  - Any over-withholding of the foreign partner's regular tax liability must be recovered by the partner through the filing of his own tax return
  - Gain from the sale of partnership interest treated as ECI in the hands of foreign partner subject to U.S. tax to the extent it is attributable to the partnership's ownership of U.S. real property or a U.S. trade or business conducted by the partnership

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What activities most commonly trigger unexpected state tax nexus in multi-state real estate funds, and how can managers mitigate this risk early?

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What activities most commonly trigger unexpected state tax nexus in multi-state real estate funds, and how can managers mitigate this risk early?

- Structuring – 1099-DIV vs. K-1
- Partner residency related filings (e.g., NY, NJ)
- Evaluate Pass-Through Entity Tax (PTET) elections for SALT cap workaround
- Understand withholding vs. composite filings for nonresident investors
- Prepare for state filing obligations and investor notifications

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State & Local Tax - Nexus Considerations

- **Physical Presence:** Owning or leasing real estate, storing inventory (including via third-party warehouses) or having employees/representatives (even remote) in a state constitutes nexus
- **Economic Nexus:** Many states may impose sales and income tax obligations based solely on economic activity, e.g., $100,000 in gross revenue or 200 transactions, even without a physical office
- **Partnership/Investor Nexus:** Real estate partnerships often must register in every state where they own property — furthermore, investor residency can trigger filing obligations, particularly in states with broad "doing business" definitions like California
- **Remote Work Impact:** As of 2026, many states have reinstated pre-pandemic nexus standards, meaning a remote employee working from home in a state may establish tax nexus for their employer
- **Specialized Rules:** Some states apply “affiliate nexus” (connecting a business to a subsidiary in the state) or “click-through nexus” (referral agents), which can pull in out-of-state entities

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What guardrails must be in place for management fee waivers to achieve the intended economics without triggering recharacterization or audit risk?

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What guardrails must be in place for management fee waivers to achieve the intended economics without triggering recharacterization or audit risk?

- **Timing:** Election must be made before the fee is earned — no retroactive waivers
- **Irrevocability:** Waived fees cannot be clawed back or reinstated later
- **Real Risk:** GP must meaningfully bear downside risk on the replacement economics
- **Clear Documentation:** LP agreement, waiver election and capital accounts must align
- **Consistent Economic Effect:** Allocations must have substantial economic effect, not just tax effect
- **No Disguised Compensation:** Avoid facts that look like deferred or guaranteed fees
- **Audit-Ready Support:** Governance, approvals and calculations must be well-documented and repeatable

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How are asset management fees sourced for state and local tax purposes, and where do fund managers most often see unexpected exposure or controversy?

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How are asset management fees sourced for state and local tax purposes, and where do fund managers most often see unexpected exposure or controversy?

- **Market-Based Sourcing:** Many states, notably California, now source asset management fees based on the investor's domicile (where the money comes from), not where the investment manager is located
- **Economic Nexus:** States are increasingly adopting economic nexus, meaning a physical presence (office, employees) is not required to be subject to tax — simply having a certain amount of revenue or number of clients in a state can trigger filing requirements
- **Thresholds & Apportionment:** Managers must track the percentage of assets under management (AUM) held by residents of each state — if a manager exceeds a state's specific threshold, they may be subject to income tax on that portion, even if they have no physical footprint
- **Separate Entities for Carried Interest:** Profit reallocation (carried interest) is often structured through a separate entity from the management fee entity to avoid state taxation under "trading for its own account" exclusions
- **Entity-Level Taxation:** Asset managers must navigate, and often pay, state entity-level taxes based on where they provide services and where their clients are located (income/franchise taxes)

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