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Tax Bill Reforms Signal Renewed Investment in U.S. Real Estate

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A newly signed federal tax-and-spending bill is set to reshape key aspects of the American real estate landscape, with targeted reforms that aim to spur investment in both affordable housing and underutilized commercial spaces.

One of the most notable changes in the legislation is the overhaul of the federal Opportunity Zones (OZs) program, originally established in 2017 during President Donald Trump's administration. Opportunity Zones are designated low-income areas where developers and investors can receive tax benefits for initiating projects. Under the new bill, the program will be expanded and made permanent starting in 2027, signaling a long-term federal commitment to incentivizing development in economically challenged areas.

The bill also revives and strengthens the Low-Income Housing Tax Credit (LIHTC), a critical mechanism used for decades to help finance the construction of affordable housing. It reinstates the 12.5% increase in the 9% LIHTC allocation that expired in 2021 and lowers the bond financing threshold from 50% to 25%. According to Hal Coffey, a real estate law expert with Clark Hill, these changes will help local governments and developers pursue more housing projects without being forced to prioritize only the most competitive proposals. “It’s going to be a positive,” Coffey said, though he acknowledged that construction costs remain a significant barrier.

Indeed, despite expanded tax incentives, the volatility in material pricing, driven in part by ongoing tariff uncertainty, continues to weigh on developers. Kevin Gillen, a senior research fellow at Drexel University’s Lindy Institute for Urban Innovation, found that tariffs on imported construction materials could drive up homebuilding costs in the Philadelphia area by roughly $20,000 per unit. That price pressure could reduce the annual number of new residential units by as many as 1,600 by the end of the decade, depending on how builders absorb or pass on costs.

At the same time, some commercial real estate markets are showing signs of renewed activity. In Portland, Oregon, the city’s tallest office tower, known locally as “Big Pink,” was recently purchased for $45 million, a steep discount from its previous $372.5 million sale in 2015. The new owner plans an extensive modernization effort aimed at revitalizing the tower as a premier downtown destination. Portland Mayor Keith Wilson praised the move as a positive signal for the city’s future.

Other markets are seeing similar momentum. In Dallas, Texas, and Scottsdale, Arizona, developers are investing heavily in office renovations, with a focus on attracting hybrid workforces through improved amenities. These efforts appear to be paying off, particularly in cities like Chicago, where non-premium office spaces are experiencing a boost in leasing activity due to updated facilities and lower entry prices.

Though challenges remain, especially in the form of fluctuating construction costs and uneven demand, the bill’s passage marks a clear shift toward policies that encourage private-sector investment in housing and infrastructure. With long-term tools like the retooled Opportunity Zones and stronger LIHTC incentives in place, the real estate sector may be poised for a more stable and growth-oriented path.