

## Cost Segregation and the Stand-Alone Restaurant

### SCENARIO #1

An investor purchases an Applebee's building and surrounding land for **\$4,284,000** in 2008.

**\$2,870,000** of the purchase price is allocated to the building.  
**\$1,414,000** is allocated to land.

**Without a Cost Segregation Study** the owner expenses 1/39th of the building each year, which is approximately **\$73,600 each year**, resulting in **depreciation expense of \$736,000 over the first ten years**.

### SCENARIO #2

An investor purchases an Applebee's building and surrounding land for **\$4,284,000** in 2008.

**A Cost Segregation Study is ordered** (at an owner investment of \$7,250). The study reallocates portions of the purchase price away from real property to personal property and land improvements.

**\$393,000** is attributed to personal property, things like wallcoverings, specialty electrical and plumbing systems, seating, built-in bars and counters, canopies, and specialty lighting.

Another **\$730,000** is allocated to land improvements, such as asphalt, sidewalks, parking lot lighting, and drainage.

During the **first year**, approximately **\$160,000** is expensed, resulting in **immediate savings exceeding \$33,000**. After **ten years** of service, approximately **\$1.3 million** will be expensed through depreciation, compared to the **\$736,000** in SCENARIO #1, resulting in **additional tax deductions of over \$564,000**.

**The owner, as a result, could save about \$237,000 in federal income taxes over the first ten years, while the cost of the study is recuperated four times over in the first year of operation.**

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