



Tenant Improvements/Leasehold Improvements

The real estate definition of Leasehold improvements, also known as tenant improvements (TI), are the customized alterations a building owner makes to rental space as part of a lease agreement, in order to configure the space for the needs of that particular tenant. These include changes to walls, floors, ceilings, and lighting, among others. In actual practice, these customized tenant improvements usually have a useful economic life of 5 to 10 years, which spans the average commercial lease term.

The Economic Recovery Tax Act of 1981 created a depreciable life of 15 years for all real property placed in service after December 31, 1980. For property placed in service after March 15, 1984, the depreciable life was extended to 18 years, and for property placed in service after May 8, 1985, to 19 years. In 1986, the Tax Reform Act was enacted into law. This changed depreciation rules considerably. It changed the depreciable life of a non-residential property to 31.5 years, and the life of residential to a depreciable life of 27.5 years.

The cost for tenant improvements is amortized over the depreciable life of the nonresidential building, not, as in prior laws, over the term of the lease. The current depreciable life for a nonresidential building is 39 years, while the depreciable life of a residential property is 27.5 years. This 39 year depreciation applies to properties placed in service on or after May 13, 1993. In 2004, legislation was adopted that temporarily changed the amortization period for certain leasehold improvements to 15 years, with any remaining balance deductible at the end of the lease. This provision expired on December 31, 2005.

In another temporary provision enacted on March 9, 2002, landlords (or tenants – but not both) were able to deduct 30% of the cost of leasehold improvements in the year they are placed in service. This provision applied to improvements made between September 11, 2001 and September 11, 2004. In December 2010 the Bush-era tax rates were temporarily extended. Leasehold Improvements were included in the extension which renewed the 15-year cost recovery period made between January 1, 2010 and December 31, 2011.

Position Statement

The CCIM Institute is in support of legislation to decrease the length of depreciable lives for tenant improvements to the length of the lease term. The CCIM Institute supports legislative language that would allow any remainder of tenant improvement costs left upon early termination of the lease to be written off upon the termination of a lease, not over the depreciable life of a structure. (6/96; updated 8/96, 3/03, 10/06, 04/11)