Executive summary | December 2025

Wipfli Real Estate Leaders Exchange

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Executive summary

A group of 10 real estate industry executives convened to discuss the economic and operational outlook for 2026.

The dialogue focused on navigating a challenging investment landscape characterized by high interest rates and construction costs, which is complicating new development deals.

Participants shared strategies for managing investor expectations, particularly regarding tax liabilities and the nuances of complex structures, such as 1031 exchanges. The group also examined critical operational risks, emphasizing the need for rigorous internal controls to prevent wire fraud.

Finally, the conversation highlighted best practices for technology implementation, stressing that software should act as a force multiplier for staff rather than a replacement.

Capital markets and deal viability

High interest rates and elevated construction costs are squeezing profit margins, forcing firms to adjust return expectations and delay new projects while seeking creative fee structures to make deals work.

"The returns we look at currently do not look great, often falling between 8% and 11%, which is simply not enticing enough for us to jump into new projects."

"We will likely defer the asset management fees until the property's open or roll it in basically like it's a contribution in order to reduce the need to find so much capital."

Participants broadly agreed that new development projects are difficult to justify financially, with one executive noting a significant cost gap where building new units costs nearly $100,000 more per door than acquiring existing assets.

To bridge funding gaps and align with investor interests, some firms are restructuring compensation by deferring asset management fees until projects open or rolling development fees back into the deal as equity contributions. While multifamily projects face significant financial headwinds, one participant highlighted that build-for-rent townhome developments are proving more viable. However, obtaining construction loans remains difficult without strong regional banking relationships.

Return expectations have shifted significantly downward. A family office representative noted a departure from historical, 30% cash-on-cash returns toward a long-term hold strategy focused on stability rather than quick exits.

Executives involved in distressed assets noted that while general market prices remain high, building relationships with lenders has allowed them to acquire redevelopable land at a fraction of the standard market cost.

Strategic tax planning and investor education

Executives emphasized the critical need to educate investors on the long-term tax implications of real estate, specifically regarding depreciation recapture and the limitations of certain tax-deferral structures.

There was consensus that investors often suffer from "tax amnesia." They forget that early losses used to offset income will result in significant tax liabilities — potentially exceeding cash proceeds — when properties are eventually sold.

> *"The 'amnesia' that investors can have is a real issue; investors often forget that the tax savings they enjoyed for five years will eventually result in a tax bill when the property is sold."*

One panelist argued that firms should better communicate the value of tax-deferred compounding. They also noted that a lower raw return in real estate often outperforms higher taxable returns in other asset classes effectively.

A clear divergence emerged regarding 1031 exchanges. 1031 exchanges may be effective for family offices; however, syndicated groups largely avoid them due to administrative complexity and legal liability. These groups prefer other structures, such as 721 transactions.

Participants discussed the impact of opportunity zones 2.0, noting that while new legislation extends deferral periods, the underlying deal must still make economic sense independent of the tax benefits to be viable. One leader noted that sophisticated investors are now actively seeking deals specifically to offset expected gains, creating a distinct market for projects that can deliver immediate depreciation benefits through cost segregation studies.

Risk management and fraud prevention

The rising sophistication of fraud attempts, particularly in wire transfers and AI-driven impersonation, has necessitated the implementation of rigorous, nonnegotiable internal controls and multifactor verification processes.

One executive detailed a strict policy that requires verbal verification for all money transfers and refuses to rely on email instructions due to the high risk of impersonation and cyberattacks.

Participants agreed that general software permissions are insufficient. Specific "dual control" systems where one person initiates a payment and another uses a physical token to approve it are now standard practice. The group discussed the emerging threat of AI in fraud, with one leader noting they personally coordinate wire protection protocols with their CEO to counter increasingly sophisticated AI-driven impersonation attempts.

While some private firms rely solely on internal audits, others are voluntarily moving toward third-party compliance reporting to satisfy institutional investors and ensure their control environments meet industry benchmarks. The conversation highlighted that security must override convenience; one firm refused to use a vendor's portal until the vendor removed Social Security numbers, prioritizing data protection over operational speed.

> *"I was just talking to our CEO this morning about our wire protections, and we discussed how, especially with the rise in AI and impersonations, that arena is becoming extremely sophisticated."*

> *"If we cannot independently verify wire instructions with a telephone number obtained outside of the email chain, the money simply does not move."*

Technology implementation and operational efficiency

Leaders viewed technology as a vital tool to increase capacity and handle complex data rather than a method to reduce staff, though they cautioned against overpromising sales pitches from vendors.

Executives agreed that automation serves as a force multiplier that allows accounting teams to handle higher workloads and focus on strategic tasks rather than leading to headcount reductions.

Implementation challenges were a major theme; one participant shared a negative experience with a broad enterprise system that failed to meet core needs and forced a costly return to industry-specific software.

"Salespeople for software can promise everything you want, but it is not until you are actually implementing the system that you discover its true capabilities."

Successful adoption requires skepticism during the sales process. Leaders recommended thorough due diligence and maintaining the leverage to halt implementation immediately if the software fails to deliver advertised functionality.

For accounts payable, cloud-based systems were praised for eliminating paper workflows across multistate operations, though success relies on rigorous internal project management rather than relying solely on vendor support. Participants noted that generic business management software often lacks the ability to handle both transactional and relational data required in real estate, necessitating the use of specialized modules or wrappers.

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